

SQUARE-DEAL

SCHOOL MAGAZINE

PUBLISHED BY: SCHOOL OF ECONOMIC SCIENCE

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ISSUE NO. 1

Dear Reader:

We have been fortunate in having Mr. Ernest Farmer and then Mr. Stanley Podger as editors of the "Square Deal". Stanley has worked hard during the past three years as editor but he now finds it impossible to carry on. We shall miss him and wish him success in his endeavours. We look forward to publishing articles from him in future issues.

An Editorial Committee composed of Craig Cringan, John Fisher, Gus Hendriks, Godfrey Orleans and Eli Ophek will produce the "Square Deal". They ask for your support and co-operation by submitting articles and letters to the editors.

After discussion it was decided to change the format of the "Square Deal". We hope you like our "new look".

It is our honour to host this year's Conference on the Property Tax in July 1973. In order to keep our readers abreast of the many developments it has been decided to publish the "Square Deal" monthly until the Conference.

We hope that the information on school activities and the articles that will appear in the "Square Deal" will give you the necessary detail so that you can support our efforts and help us make the 1973 Conference a big success.

Sincerely, Mal McCarthy, President.

CIVIC ELECTION IN TORONTO

One chance to reach a politician occurs before an election, so we have tried to influence the three mayoralty candidates of the City of Toronto with the relevance of Site Value Assessment for our city.

We appreciate very much having had the opportunity given to us to present our views to these politicians even in the hustle and bustle of the election. The results of these efforts were worthwhile and significant even during the election campaign.



the municipality of metropolitan toronto was incorporated april 15, 1953; reorganized january 1, 1967

Mayoralty candidate David Rotenberg on November 10th proclaimed as an election issue the taxation of top-zoned but underdeveloped downtown lands to their full potential value, a cut in land speculation, and reduction of land prices and rents. Under this plan, owners of underbuilt top downtown lands would either pay much higher taxes, or apply to have the land "down zoned" to

conform with present floor space density. Later, if the property were to be redeveloped, owners would apply for "up zoning" and the City Council would dictate the shape, size and amenities of the new project. The province also would have to approve the scheme for full value land taxation.

Since utilization of Site Value Assessment was advocated only partially by Mr. Rotenberg, he suggested an additional policy called the "land stabilization bank" in which the City would use its own money and federal mortgage loans to buy cheap, obsolete industrial land for new housing. On this land, City would plan developments to suit all income groups. The land would be leased, not sold, to developers. In downtown alone there are 1,200 acres of industrial land which could be gradually bought up for the bank. Hundreds of acres of the old waterfront land could be bought for later housing development. The lease income from the lands, it is believed, would cover mortgage costs, so that the land bank fund would become self-perpetuating. Mr. Rotenberg proposed also "mini-planning boards" of citizens who would deal more directly with City Council committees rather than be held up by the autonomous and powerless City Planning Board.

However, without Site Value Assessment the City official plan is feeble and leaves potential development to the personal wishes of landowners.

We also gave a presentation on S.V.A. to some of mayoralty candidate Mr. Tony O'Donohue's committees. One of the members of one of these committees was Mr. Stanley Randall, the former Provincial Minister of Trade and Development, who was responsible for the creation of Ontario Place on the City's waterfront. Mr. Randall was very interested in S.V.A., especially as it relates to the renovation of downtown areas. He endorsed the School's application for a government research grant.

Mr. O'Donohue's platform pamphlet advocated providing incentives for home renovation, lower interest rate loans, and no tax increases based on renovation. Mr. O'Donohue was also aware of the inequities in the taxation with regard to tenants. He claimed that, for the first time in history, the dwelling stock in Metropolitan Toronto was composed of more apartments than single family houses.

In fact, 54 percent of the households in the City of Toronto are tenants-occupied. Apartment residents pay more in taxes, hidden in their rent, for what they get in municipal services. Generally, apartment dwellers pay in taxes 3 percent of the real estate value of the unit they occupy, the equivalent of 3 months rent per year. This compares with 1.5 to 2 percent paid by the average home owner. For example, in 1962 when St. James Town consisted of single family houses, the area was assessed only at \$1.6 million in realty assessment. In 1972, after redevelopment into high rises, the apartments were assessed at \$23 million or 13 times more.

Under S.V.T. the landlords themselves would have to absorb the property tax and could not pass it along to the tenants.

We presented the method of S.V.A. to Mayor Elect David Crombie at Ryerson Polytechnic Institute at a town planning course he taught. Mr. Crombie's comment to the students was that Henry George's ideas with regard to land were becoming relevant policy issues. After the election victory on November 8th, during the John Gilbert CHUM radio program, Mr. Crombie answered questions on the property tax and stressed that he sees a need for change in the components of property tax, so that the burden of taxes will be on the land rather than on improvements and buildings. We are, of course, very encouraged by this announcement.

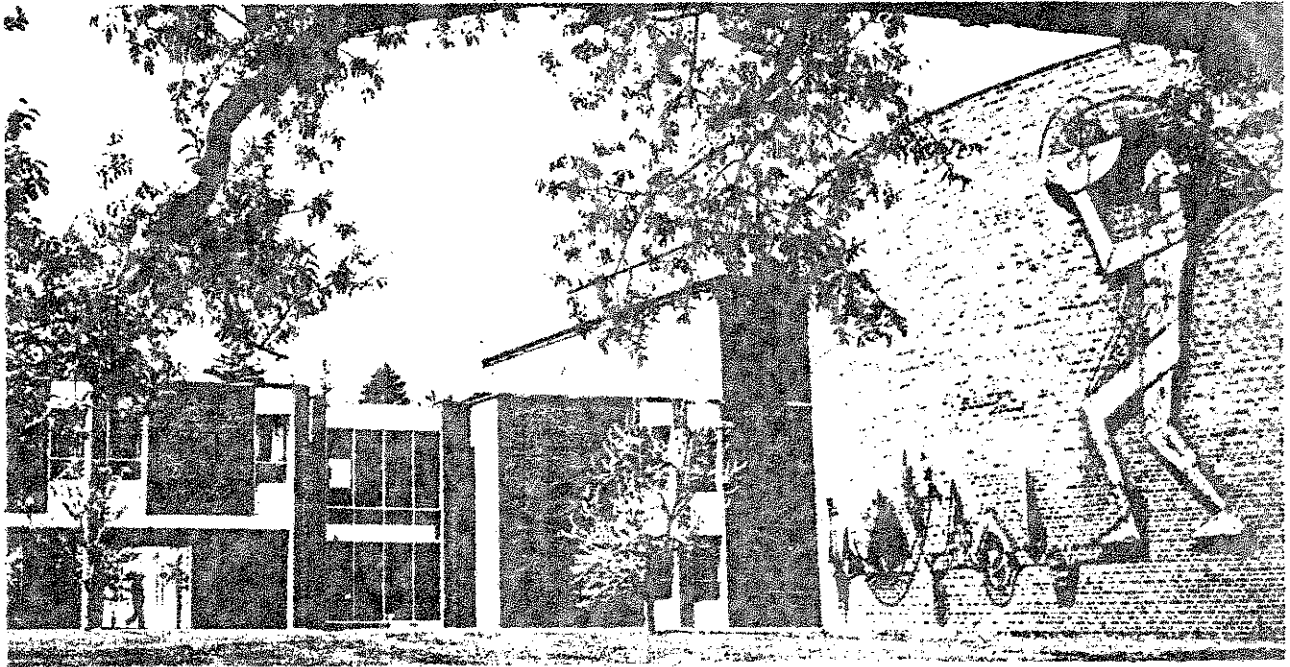
E. Ophek

CONFERENCE ON THE PROPERTY TAX

PRELIMINARY PROGRAM

The School appreciates the opportunity to have here in Metropolitan Toronto, the largest and most influential city in Ontario, the 1973 conference of the North American Schools of Economic Science and the Henry George Schools of Social Science. The place picked for the conference is one that the environmentalists would highly recommend. Although close to the hub of Toronto, Glendon College, York University, is a unique campus in a spacious area facing a valley preserved by the City for recreational purposes. It was originally an estate which was donated to York University

The college now operates as a branch of the University, mainly for social studies, but in the summer the campus serves as an ideal place for professional and educational conventions. Trees, lawns, flowers, and landscaping inspire visitors to the campus. The college includes accommodation facilities, sport fields and swimming pool, all designed on a human scale.



Let us now describe the program to take place in such a stimulating environment. We plan that this convention will be action oriented, therefore we are calling it Conference on the Property Tax. We aim to influence government officials with the benefits of Site Value Assessment, to contribute to the knowledge of our own movement's members, and develop policies. A summary of the preliminary program for the convention follows.

Preliminary Program
CONFERENCE ON THE PROPERTY TAX
GLENDON COLLEGE, METROPOLITAN TORONTO

July 4-7, 1973

	Wednesday July 4	Thursday July 5	Friday July 6	Saturday July 7
Morning Sessions		General meeting with the directors of the Schools of Economic Science and Henry George Schools Reports of Progress Seminar on Site Value Assessment Academic specialists discuss with officials appointed by the Provincial Government of Ontario	Session research activities of the Schools for the promotion of Site Value Taxation Seminar on Site Value Assessment Academic specialists discuss with officials appointed by the municipalities of Metropolitan Toronto	Presentation of new methods of assessing land Showing of new films on property tax
Noon		Speaker and Lunch	Speaker and Lunch	Speaker and Lunch
Afternoon		Sightseeing tour of Toronto Special meeting of Schools' directors	Sessions on teaching methods and educational aids for the dissemination of Site Value Assessment philosophy and relevancy Seminar continues	Short speeches on property tax and summation of the seminars by the academic specialists
Evening	Welcoming Evening Party	Social Party Wine and Cheese	Free Evening Out of town guests to be invited to homes of local School adherents	Speaker and Banquet

Narration of the preliminary program.

On Wednesday evening, July 4: We will greet our guests, many of whom will come from all parts of North America, in the evening. Members and guests will have an opportunity to meet with each other. Glendon Hall, situated on a beautiful estate, provides a magnificent atmosphere for such an event. Suggested accommodations are at the convenient and comfortable college dormitories on the campus or the luxurious nearby hotels, Inn on the Park or Muir Park Hotel.

On Thursday, July 5: Dual activities will run during the day. In a closed seminar, academic experts on Site Value Assessment, among them City Valuer Mr. John McCulloch, Prof. Dick Netzer, Prof. Mason Gaffney, Prof. C. L. Harriss, Prof. Arthur Becker, City Assessor Mr. Ted Gwartney and Prof. J. I. Stewart, will confer with Government of Ontario officials - appointed by Provincial Premier William Davis. They will discuss property tax issues, enlarging on the opposing effects of taxing improvements versus taxing land.

At the same time in the morning, in Glendon Hall, the directors of our School will give short briefs to our members on activities, problems and prospects that their schools face in the community.

In the afternoon, while the closed seminar continues and the schools' directors hold a special meeting, members and guests are invited to tour our city so as to acquaint themselves with the life and development occurring in the city.

The evening will conclude with a Wine and Cheese Party in which all can meet in an informal relaxed atmosphere.

On Friday, July 6: Here also activities will run simultaneously. In a seminar our academic specialists will confer with municipal officials from the five boroughs of Metropolitan Toronto and discuss municipal property tax issues. Also in the morning, in Glendon Hall, our members and guests will attend a session on the research activities of the schools promoting Site Value Taxation.

In the afternoon, while the seminar continues, the members and guests will attend a session on educational activities, methods, material and aids used by the schools. The effectiveness and influence of the various educational efforts will be assessed. In the evening guests are free to visit our city with its wide range of fine restaurants and entertainment. Local members will also welcome guests to visit them in their homes.

On Saturday, July 7: This is the last day of the Convention, and we emphasize on future prospects. Since the Town Planning Institute of Canada, Ontario Branch, has requested us to open some sessions in the convention to professionals and the general public, we are pleased to satisfy their request on Saturday.

In the morning the City Valuer, Mr. John McCulloch from Johannesburg, a city that uses Site Value Taxation, will talk on the experience gathered from using this property taxation method in Johannesburg, and also will describe new multiple regression methods developed by his department for the assessing of land. The results from such methods are very promising, the figures received are within five percent of land's market value.

Following will be showing of films on the property tax and we hope to inaugurate a new film on the subject. As the film "One Way to Better Cities" has proven to be a tremendous success, we are eager to see the next educational film on the subject.

In the afternoon we plan to invite our academic specialists to give speeches to the audience on the need to revise the property tax.

We will conclude with a Banquet and say farewell to our guests from out of town.

Eli Ophek

PORT CREDIT

Following is a short summary of the school's efforts to achieve Site Value Assessment in Port Credit as a demonstration area.

Toronto Daily Star

TUESDAY, SEPTEMBER 22, 1970

Port Credit seeks permission to test new assessment plan

PORT CREDIT — Council decided yesterday to ask for provincial approval to conduct a pilot project that would change the existing system of assessing property in this town.

The system, known as site value taxation, is based on assessing the value of land only — not structure on it — according to economic and planning conditions in the municipality.

In a report to council, Deputy Reeve John Caldwell said "council is not recommending the trial or test of some vague theory.

"What council is proposing is that the Port Credit area be used as a demonstration for all Ontario to the effectiveness of a rational and equitable basis for the taxation of property."

Caldwell said that under the system persons owning a home on land that may be zoned to permit other uses, such as apartments, would continue to be assessed and taxed as single-home owners unless they decided to speculate on its sale.

SAFEGUARDS BUILT IN

"In addition, safeguards would be built in to prevent abnormal increases in assessment," he added.

The deputy reeve said Port Credit is well suited for such an experiment because it is small enough so a changeover could be achieved with a minimum of cost and in a comparatively short time.

"The town, although compact, has a good combination of residential, commercial and industrial assessment so that all aspects of assessment would be demonstrated, said Caldwell.

In addition, Port Credit is in the centre of the most dynamic area of Ontario and the experience gained from such a project would be a guide for other developing municipalities, he said.

NO PENALTY

Among the advantages of the system is that it encourages the property owner to improve his property without penalizing him by increasing his taxes. It makes it profitable for the owner of idle or inadequately developed property in fast developing areas to create the best improvement that the zoning of that area allows.

Council also approved allocating up to \$300 to pay tuition fees for 25 persons, including councillors, planners, homeowners, businessmen and industrialists, to take a seven-week course on the system at the School of Economic Science in Rexdale.

Toronto Daily Star

TUESDAY, SEPTEMBER 21, 1971

Revised tax system would benefit 69% Port Credit assured

PORT CREDIT — About 69 per cent of the ratepayers would have their property taxes reduced if their properties had been assessed by the site value method, council was told yesterday. Under this system, assessment is based on the value of property only, not the structures on it.

Malcolm McCarthy, director of the School of Economic Science at Rexdale, said the estimated reductions would "range from just a few dollars to several hundred dollars in some cases."

Some of the remaining ratepayers would have the same taxes and others would have to pay more under the site value system, McCarthy added.

Port Credit council has been seeking provincial approval for more than a year to conduct a pilot project to test the new system. Councilors decided yesterday to continue trying.

McCarthy disclosed the results of an exercise conducted by the Rexdale school and members of the newly formed Port Credit Site Value Taxation Association that compared assessment under site value and the present system.

"Under site value, our assessment of Port Credit's 1,500 properties worked out to \$75 million, compared to the \$88 million total assessment under the present system," he said. Property sales for the past six to seven years were considered in the survey.

WORKABLE BASE

"The total assessment under site value is within 14½ per cent of the present total value and provides a workable tax base," McCarthy added.

Under the system, only one mill rate would be in effect, 27.1, compared with the present residential rate of 22.6 mills and 24.6 for commercial properties.

He said the survey was conducted in six weeks by himself and two university students "and demonstrates clearly how much less time-consuming a site value survey is than the conventional method."

STUDENT RESEARCHERS

The student researchers were Michael McCarter, a third-year geography student at the University of Toronto, and Randy Carr, a fourth-year business administration student at the University of Western Ontario.

McCarthy said the plan to institute site value taxation has been worked out so as not to upset the town's economy. He said it could be introduced over a period of five years without ill effects.

Gus Hendriks, chairman of the new association, asked council to request the province to free two assessors to check the site value survey.

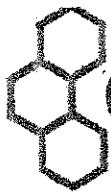
CHANCE TO COMPARE

Hendriks also suggested that a draft tax bill as it would be under site value assessment be sent out with the conventional tax bill "so residents can have a chance to compare."

Mayor Cy Saddington warned that this is not "something that will or can be changed overnight, especially since the final decision has to be made by the province."

Saddington said he will support establishment of a committee to study the site value survey.

McCarthy said site value assessment "could be the start to the answer to Ontario's sick economy."



Community forum letters from our readers



Plea for land value taxation

Sir: Most Canadians would agree that our most pressing economic problems are inflation and unemployment — with urban decay running a close third.

Some Canadians are unconcerned or apathetic about these problems. Most are concerned but confused by the vague, contradictory, inconsistent and discriminatory economic philosophies expounded by so-called experts. Those in a position to act are frustrated by outdated traditional methods.

On September 7, R. J. Paton published some figures about house construction costs in the London area. He said the increase in cost of serviced lots accounts for 43 per cent of the increase in prices of new homes. This was 27½ per cent higher than the next highest percentage increase, which is the cost of labor.

The percentage increase in

land cost varies with location and demand. For example, inland lake frontage in the Owen Sound area has gone from \$25 to \$50 per foot in just four years — a 100 per cent increase. On the other hand land used for farming has remained relatively stable.

House and Home, a U.S. publication, said in August, 1969, that land prices for home-building had soared anywhere from 100 percent to 3,760 per cent since 1950 (building material prices climbed 24 per cent, building trade wages rose 60 per cent in that same period). We all know where prices have gone since 1969!

Mr. Paton (one of the concerned but confused) in his articles has no positive answer to the land price increase, but House and Home did. It recommended land value taxation.

Briefly, this means the collection by government of

location value of unimproved land as created by the presence and activity of the community.

I have outlined the justice and equity of LVT in this column before. Recently, Mr. Eric Kierans, former communications minister, stated the problem and solution in terms any advocate of LVT could fully support. A summary of Mr. Kierans' view follows:

The only thing there is going to be less of is non-renewable resources — there will be a lot more capital and people.

We are giving our resources away and exporters leave little behind in the way of taxes to supply much needed services and amenities.

The price of our resources

should be higher in terms of taxes. Reduce personal and corporate taxes and let each spend his own money. The difference would be found in resource taxes.

Accepting Mr. Kierans' view, a tax on land values would reduce the price of non-renewable resources and land (anti-inflationary), force idle, under-used and misused land into production (providing jobs and new housing) and would free non-productive investment in raw land for industrial growth (reducing interest rates).

It's guaranteed to work if given a chance by an informed public and vested interests.

Rodney

JOHN FISHER

LONDON FREE PRESS
SEPT/71

The Globe and Mail

TUESDAY, AUGUST 3, 1971

New tax deal

The reasons for poverty are many, but a great deal of it can be traced to lack of opportunity and incentives. Neither of these causes was discussed in your editorial, Takeaways and Giveaways (July 19), and the solutions offered were negative.

By 1913 (before Social Credit) Alberta's Liberal Government had introduced the principles of land value taxation (the collection of location value of land as created by the presence and activity of the community).

For seven years a tax on the value of land accounted for almost all the revenue of that province and it laid the foundation for future developments. Even today farmers pay taxes on land values only, oil companies pay large amounts for provincial mineral rights and Alberta remains the only province without a sales tax.

What has land value taxation got to do with opportunity and incentive? Let us take the controversial property tax for example.

A tax on the improvement part of real estate will be passed on in higher prices. Also, such a tax will discourage production and therefore affect the number of jobs. In other words a tax on improvement tends to unemploy people and cause inflation.

Here is a basic cause of poverty. As long as governments tax goods and services opportunity and incentive are discouraged and the poor will remain, the number varying only with the degree of application of these taxes. Even Finance Minister Benson realized this when he reduced taxes in his last budget.

A tax on the land part of real estate cannot be passed on because such a tax cannot check the supply of land. In fact this tax would force unused or underused land (i.e. slumland) into production to create more jobs and reverse our present inflationary trend.

The poor in particular and everyone in general would get a new deal with Land Value Taxation. No government handouts or special privileges would be necessary, but only a shift of taxes from local improvements, goods, services and incomes to the unimproved value of land.

Mankind would have the ideals of socialism without the disincentives and oppression which invariably accompany its practice.

We need to redefine free enterprise so that it no longer means monopolies, government privileges, slums, unemployment and poverty. Let Land Value Taxation provide opportunities and incentives.

John Fisher

Rodney

Mississauga The Times

Site value assessment may cut taxes

The April 26 edition of The Toronto Star reported that Deputy Reeve Grant Clarkson has stated the people of Mississauga must be protected from information about site value taxation because it might confuse them.

The report states the deputy reeve has asked the Halton-Peel assessment

office to stop distribution of a pamphlet that includes information on site value assessment, "because it will create confusion among residents."

Coming from a responsible official, this is an insult to the citizens of Mississauga.

For Mr. Clarkson's information, Mississauga already has site value

assessment, along with assessment of buildings. Which is more confusing: to tax only the site value of the land itself, or to tax also the value of homes, stores, factories, machines and businesses throughout the town?

Taxes on improvements are a serious disincentive to industry, particularly the

building industry. A study of basic economics will indicate that this kind of taxation is a major cause of chronic unemployment.

If the citizens of Mississauga could see a comparison of everybody's taxes under the present system and under site value taxation, they would recognize the possibility for sharply lower taxes for both the homeowners and the businessmen of Mississauga.

The savings for the people would be much greater than in most other communities because Mississauga has an unusually large quantity of very high priced vacant land which is still assessed at agriculture rates. The real farmers sold most of this land some years ago.

Site value assessment would remove the tremendous hidden subsidies which are being paid to land speculators.

For whom is Mr. Clarkson speaking when he swings his broadsword to protect the people of Mississauga from "confusion"?

Let the people know the truth.

J.C. Cringan,
Mississauga.

BUILDING SYSTEMS DESIGN

SEPTEMBER 1972

Tax Energy for Ecology

Editor:

Do you detect something missing in the articles about energy conservation carried in Building Systems Design?

I have skimmed over a number of these articles recently and found that there is a uniformity of approach which leaves out an essential link.

Each writer goes to great lengths to preach to the readers about the importance of conserving energy or conserving resources. Then each writer leaps across to a discussion of systems analysis and the economics of various hardware.

My experience in this kind of exercise has been that it is hard to justify such things as heat economizers or more efficient compressors on the grounds of lowest lifetime cost. We win some and we lose some, but you need only to look at the quality of much of the hardware on the market to realize that most customers buy the cheap items.

Before customers can afford to buy "conservation", this conservation has to be economically attractive to them. This is coming slowly, as shown in the articles in Building Systems Design. With better economics, this same evolution could occur much quicker; within the lifetimes of engineers now living.

The Solution — Some of the cost elements which are presently paid as a direct charge against the manufacturing of things will have to be transferred to become charges against the raw materials and the energy used by society. In other words, governments should impose more heavy taxes than at present on energy and resources and they should reduce the taxation of productive labor. We need lower income taxes, lower corporate taxes, lower sales taxes, and lower taxes on buildings and machinery.

The result — it would pay to conserve energy; it would pay to conserve materials; it would pay to re-cycle materials; it would pay to build improved quality into manufactured goods.

Society in general would benefit from reduced pollution and reduced depletion of resources. Engineers would benefit through increasing the "ingenuity content" of the product which they sell.

This is the good news. And now the bad news — How can engineers put this message across to their politicians?

J. C. Cringan,
Mississauga, Ont., Canada

Mississauga The Times

'Let's consider tax system based on land value alone'

Letters to the editor

In the recent discussions regarding the high price of land and the resulting effects on housing in our district, the suggested remedies run from landbanking (with the taxpayers' money, and the resultant screams of "Socialism"!) to the "smoothing of the way" for the already large developers in our midst.

These social and economic problems are based on our present insidious method of property taxation, which places taxation on land and buildings. It is pointed out that rarely can two assessors agree on the building assessment of a property, which in itself discourages building improvements and additions by the occupant.

Indeed in many cases, speculation is aided and abetted by allowing buildings to deteriorate for the purpose of reducing

taxes on property to gain the easement of costs, until such time as the land is urgently required and made more valuable by the natural growth around it. This is speculation causing slum districts and resultant inflation.

Have none of the many studies seriously considered a tax on land value alone according to the planning boards and the various zoning plans? How very simple to administer, once the jungle of building tax is cut away! Perhaps we would not need the huge administrative expenses presently required to support the many assessment buildings throughout our country.

Would such a taxation method not require that the owners of vacant lots either develop the property according to the zoning plan, or

sell for this purpose?

After all, doesn't land value really belong to all members of a community who develop a district? Do we not still hold a property deed "In the Queen's Right"?

Why would anyone hold a farm which is assessed at say \$2,000 per acre and refuse to sell for \$75,000 per acre? Is this fair to the well-being of the community?

Many economists say that the reason for China's sudden surge today is the result of making land available for community purpose, albeit done in a strong-arm fashion.

We have the governmental machinery available to place the tax on land value alone, if we so desire. A very recent study has been made in the Town of Port Credit on this basis, and only because it is so "new" to our culture of the way "things have been done", are we too timid to adopt its use for our betterment.

Surely this is a time for new methods to deal with our present situation of social and economic ills. Surely the burden should not be again placed on the taxpayer to pay for land assemblages presently held in large blocks.

Question: Is not the escalation of land prices a negation of true wealth? Does it not take true wealth earned by individuals in a community to purchase that which does not represent wealth in the real sense?

Surely there is some reason for our economic highs and lows. We always have people who want to work to provide for themselves and their families. The need for goods and services are ever present, so what causes the conditions under which our earning power decreases? There are economic students who maintain that the price of land escalates during a vigorous cycle and, when land values reach a certain high point we are thrust into a depression. When land prices recede an economic high returns. They also maintain that the rise and fall of great empires, to some extent is dependant on the easy availability of land.

Is landbanking an answer?

Alarm at the rate of property taxation in my district resulted in a resident taxpayers' association, formed for the purpose of co-operation with our local government group to effect efficiencies of financing.

Another representative group in my district has been formed and have studied and subscribe to the concept of land only taxation, supplemented by land use zoning and planning.

Surely the time is at hand when some very serious consideration should be devoted by our government to the concept of "land only" taxation.

A.R. Hendriks, Port Credit

THE LIBERAL, Richmond Hill, Ontario, Thursday, August 17, 1972

Planner Sees No Wrong In Bales' Markham Land Dealing

Eli Ophek, Town Planner, is a researcher for the School of Economic Science situated in Rexdale, a private non-profit incorporated organization which conducts night classes on taxation matters. The school is a member of the Canadian Association for Adult Education. Ophek is presently doing an indepth study of property taxation in Port Credit. He prepared the following statement issued by his organization on the issues involved in the recent controversy over the involvement of Ontario Minister of Justice and Attorney-General Dalton Bales, Minister of Municipal Affairs, in land speculation locally in Markham Town. The land is near the recently announced provincial and federal governments for a new international airport and satellite city — Editor).

The leading article in "The Globe and Mail" of August 4, 1972, "Bales Stands to Gain From Land Near New Airport, Denies Impropriety" is provocative. Dalton Bales, Attorney-General and former Minister of Municipal Affairs for the province, is involved in a big land speculation deal. But since land speculation is a legal and recognized practice in the business community of Ontario, the question arises: Why the uproar in this incident of land speculation?

Bales has legally based his purchase of the land on private enterprise motivation. He would like to make a profit on his capital. He found that the best way for him to insure high profit is by going into the "long term investment in land". There is nothing wrong or illegal for a Minister to follow such a business activity.

Other powerful and respected people also speculate in land and receive substantial profits through such

deals. Actually the incident of land speculation by Bales is no different from theirs. Whether or not Mr. Bales has a direct influence on the government planning policies that could affect the value of his land is secondary to the legal practice of land speculation. For, from the point of view of the community, no matter who or what land speculator lays the toll, the community in every case has to pay.

It is only commonsense to infer that had Mr. Bales not purchased the land, other land speculators would have purchased it and the final result to the community would be the same — high land prices for development.

Under the circumstances and with the assertion that Mr. Bales had no direct involvement in the planning policies that took place on and around his land, it seems that Mr. Bales is "innocent". Mr. Bales has just used the rules set by the Legislature and invested in a high-return asset.

However, if land speculation is considered an evil practice, and evil it is — it remains evil in all cases of land speculation no matter who performs it. If the Government of Ontario considered land speculation unjust and harmful to the community, there are ways to curb it.

This is not only in Mr. Bales' case and not for Cabinet Ministers only, but for all land speculators. If policies combatting land speculation are not adopted, all the government can do is calm the public, while land speculation and its adverse effects on society continue.

Land speculation is recognized today in North America as the cause of many of the acute urban problems, the decay of the cities, the sprawl, and the heaviest burden on development. A massive work on this subject has been launched by major universities and government-

al research groups in the U.S.A.

The solution they found is simple but most efficient, beneficial and just. The remedy is a higher tax on land, according to its full value, including its potential value for development, and at the same time a reduction in taxes on the development activity itself, mainly the buildings.

In this way the land tax would recover at least part of the investment the community as a whole through its public investment and services has contributed to the land value. Therefore it is a sound tax based on equity. Such a tax policy would no doubt curb land speculation and at the same time boost development and economic activity.

Today development in housing, industry and commerce is hampered by high speculative land values. It seems appropriate for Premier William Davis to consider the land taxation policies in the province if the problem of land speculation, no matter by whom, is considered to be of high priority for his government. Until then the community as a whole will continue to nourish land speculators.

It is known that in large North American cities the governments must spend \$15,000 to \$20,000 on public services and other facilities for each new dwelling. This expenditure reflects itself in the land values from which the land speculator, who just holds the land, becomes a wealthy person.

In conclusion, if measures to combat land speculation are not enacted, I can see no reason to blame Attorney-General Bales or any other person for legally practising land speculation. The accusation then for such incidents, falls on the government and the legislators who set the rules and regulations which allow such a practice.

LAND AND MONEY FLOW

CONCLUDING CHAPTER

It has been argued in the preceding chapters that in certain circumstances there might well be a tendency for producers to hold more land than is needed for current production, and that such a tendency must inevitably be a cause of economic instability. It is not suggested that this tendency is the only cause of economic instability, or even that it is the principal cause. The point of the argument is that economic stability cannot be ensured in an economy where land is privately owned, and traded and leased in the same manner as commodities.

Classical economic theory is based on the premise that the employment level and the rental quantity of land for which rent is paid must always tend to vary in proportion to one another. If this were so, there would be no reason to differentiate between rental costs and wage costs in any treatment of the total economy. One might, as did Keynes as well as the classical economists, treat all production costs as though they were wage costs.

Only in one special case can it be assumed that there is a correspondence between rental costs and wage costs, that being the case in which the rental quantity of land leased is determined by the employment level, there being no inducement to regard land simply as a capital asset. In such a case the rent index (as well as the exchange value of land) is determined solely by the production level.

The possibility, indeed the probability under certain circumstances, that land will be treated as a capital asset incurs the possibility of there being a liquidity preference in land. This possibility means that a free economy is inherently unstable in a way that cannot be remedied by monetary control alone. It is important to recognize that this instability arises from the very nature of land, which is both an essential factor of production and an asset which one might profitably hold even though it is not being put to productive use. The withholding of productive land from productive use amounts to restricting the

supply of land in relation to the demand, thereby raising land values generally while restricting the productive potential of the economy as a whole.

In our free enterprise society it is not obvious how the problem of land might be solved. One thing is certain: our system of taxation, based as it is on income and property, does nothing to mitigate the problem. An individual who holds land which is not put to productive use no doubt recognizes the asset value of the land that he holds, and no doubt recognizes that any consequent loss of income is partially offset by a reduction in his tax liabilities. At the same time the owner of slum property is hardly encouraged to improve the property by the knowledge that his property taxes would then be increased.

And yet, a very simple solution to the problem does exist. The true value of land depends not upon the use to which it is actually applied, but upon the use to which it could be applied, and would indeed be applied if there were no tendency at all to hoard land for its asset value. Thus the true measure of rental values must depend upon site values. If taxes were based upon site valuation, rather than the earnings which are actually derived from the employment of land, and rather than the value of property built upon it, there would be every incentive for the landowner to employ his land in the most economically beneficial manner, for what would be profitable to him would be profitable to all. At present the tax structure diminishes such incentive, and accentuates the undesirable consequences of "land preference".

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In conclusion, it cannot be too strongly emphasized that an economist as such is not a social reformer; the value of his work can only be judged in relation to the ideals and aims of the society which he serves. Thus the task of the economist is to examine and explain the economic functioning of a particular society - but with a purpose, namely, in order that the society may better organize its economic life in a manner consistent with the ideals and aims it professes.

A society which professes that its ideals and aims are based on social

justice and individual freedom cannot ignore the fact that these concepts are so often in apparent conflict. Nor can it ignore the spectres of unemployment and inflation, the problems of urban deterioration, the intrusion of industry and its accompaniments into the countryside and, perhaps above all, the ever-increasing power assumed by governments in order to deal with these problems, which is itself a problem in a free society.

This work is believed to offer an explanation of the underlying cause of these problems, and a basis for a solution that would least interfere with our traditional concept of freedom.

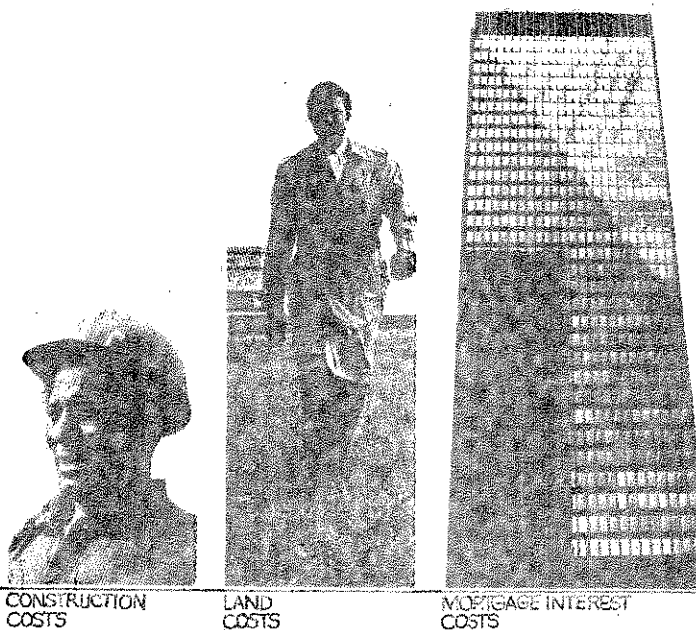
Godfrey P. Orleans

February, 1971

COST INCREASES FOR NEW HOUSING 1961-1971

100%

50%



SOURCE: CANADIAN HOUSING STATISTICS 1971/TABLES 108,112

Land speculation and housing costs

Developers always object when people label them "speculators" and complain about the enormous profits they make on the vacant land they buy up when it is farmland and sell as suburban building lots. They argue they are not profiteers, but rather responsible and respectable companies trying to do something about the housing problem.

A good specific example which shows the enormous profits developers make on land was given in a *Toronto Star* article written by Walter Stewart.

Stewart described the case of an Oakville family, Marg and Bill Hammond, who bought a new house in 1971 in a subdivision in Oakville 22 miles from downtown Toronto.

The Hammonds paid \$22,350 for their house, quite a low price for the Toronto area housing market.

Of this price, \$6,900 was for the land.

The cost to the developer of servicing the land and turning it from farmland into a building lot was \$3,000. This is higher than in many parts of the country, and reflects the high requirements laid down by the municipality.

In effect, the Hammonds paid \$3,900 for land and \$3,000 for services. But the developers purchased the land — in this case from the municipality of Oakville — for only \$612. In other words, the difference between the price the developers paid for their land and the price they sold it for was \$3288. If the Hammonds had not been forced to contribute to the developers' profit, they could have bought their lot for \$3612, almost half what they actually paid. That would have reduced the cost of their house by 14 per cent.

But the total cost of the Hammonds' land to them is much more than \$6,900. That is because they had to borrow the money they used to pay for their lot and house on two mortgages, one a 25-year first at 9 7/8 per cent and the other a 7-year second also at 9 7/8 per cent. Over those 25 years, the Hammonds will end up paying \$15,866 for their lot. The total cost to them of house plus lot plus interest on mortgages is over \$50,000.

So one major factor contributing to the high cost of this typical suburban home is the profiteering by developers on land.

Another major factor is of course the extremely high cost of borrowing money to use to buy a house. *The Hammonds will pay more in interest over the 25-term of their mortgages than they paid for the house itself.* If they had had to pay 5 per cent instead of almost 10 per cent for the money they borrowed, the cost to them of their housing would have been about \$150 a month instead of the \$225 they were paying. If their lot had cost \$3612 instead of \$6900, that would have knocked another \$20 or so a month off the monthly cost of their house.

Data from Toronto Star 29 Jan. 1972

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