

Leonard Axworthy

Henry George and the Urban Land Problem

Henry George was a major figure in the populist, progressive movements that swept through North America in the late 1880's and 1890's. He was known as the author of **Progress and Poverty**, a powerful indictment of how the laissez-faire economic system and industrialization allowed great wealth to be made while poverty flourished.

What is particularly interesting about Henry George, for contemporary purposes is what he had to say about land, its price, its misuse, and what to do about it. While written almost a hundred years ago, his views on the urban land market are of extreme relevance to our present land predicament in cities. It may just be that Henry George has some solutions in mind that bear looking into.

Why we need to look at the urban land predicament and why we need a solution was dramatically illustrated just a few weeks ago when the findings of the Task Force's long awaited **Land Supply and Cost**, burst forth in bold front page headlines in newspapers across Canada. The message was clear: urban land had risen at astronomical rates in the mid-1970's - over 40% in a three year period, and every consumer of housing was paying a heavy tariff as a result of that inflationary spiral.

At first the reaction was one of accusation and recrimination. Fingers were pointed at guilty municipal and provincial governments. Private developers were to some degree exonerated of guilt in causing the land splurge, but they were described as being the main beneficiaries, reaping annual profits in the order of 18% after taxes. Public land assembly was analyzed as being an ineffectual answer, and both federal and provincial levels of government

have quickly seized upon the report as a rationale for selling off their land banks.

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The Task Force findings deserve more careful consideration than they received in the first flush of sensational news stories and hasty governmental responses. The Report contains sober warnings about the long term malfunctions in the way we plan, regulate, tax and develop urban land, and suggests that unless some major corrections are forthcoming the present distortions will be continuing and growing source of high priced housing, impoverished municipalities, and poorly planned development.

There are a number of problem areas cited. One level of government (the Federal) increases the demand for housing through its tax and fiscal policies, while the other levels (Provincial and Municipal) limit the supply through a variety of planning restrictions. There is no servicing strategy for land supply. Citizens resent new developments. But through the pages of the Report one root problem in the system seems to stand out. To quote the Task Force it is "the biased structure of the property tax system".

Municipalities limit the supply of land for modest income housing because it costs them more than they gain in revenue from taxes to develop the land. The property tax system rewards the retention of unused or vacant land and penalizes improvements to structures on the land. To again quote from the

Task Force, "the municipal property task force gives them (the municipalities) no incentive to make cheap housing available".

If our property tax system is a major flaw in our urban management system what should be done to change it? Here is where Henry George has an answer - implement a land value tax. The theory developed by George is a simple one; all increases in the value of land would be taxed away by the government. An owner would keep title to the land, and improvements on it; buildings and the like would not be taxed. The increase in value, however, an increase that accrues not because of the investment of capital and labour, but just because there is growth in demand or because there is investment by the public in roads and services would be subject to 100% tax or at least a very heavy tax. Land stays in private ownership; its full use is encouraged; substantial revenues are realized for the municipality; and land speculation is arrested.

The time may be at hand for a new look at the ideas of Henry George. The most recent assessment of all the experts working on the Federal Provincial Task Force is that our urban land system is out of whack. They dismiss the effectiveness of many of the current panacea and implore government to focus on the working of the property tax as a first priority. But they offer no answer on what to do with that property tax system.

Someone once said that we should learn from the mistakes of our forefathers so we won't repeat them. Maybe the time is now to learn from our forefathers how to correct our mistakes. Maybe it is time to dust off Henry George and see how his insights gathered at the beginnings of our industrial urban age could help us to solve one of the most nagging and persistent problems of our maturing urban society. A graduated land tax system could well be the way to discourage speculation, recapture inflated values, and provide an incentive for the building of market housing and the improvement of existing properties. Maybe it is an idea whose time has finally come.

Land value tax is a hundred year old idea of economist Henry George that only now in these post-Proposition 13 days is receiving some much deserved attention. Its use would realign the tax burden from those least able to pay to those most able to pay; be a simpler and cheaper system to administer, and create a positive atmosphere for community growth and development.

Under the current system we tax improvements at the same rate we tax land, a method that discourages people from fixing up their properties.

A land value tax would promote the use of vacant land because it would cost more to let it lie vacant. Under the land value tax, values can be assigned to land — based on its highest and best use — during community planning.

In Pennsylvania, second and third-class cities are allowed to have separate tax rates on land and improvements, a graded tax.

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