

# Changes in Land Policy: How Fundamental Are They?

by *Mason Gaffney*

## **FROM GROWTH TO EXCLUSION: A FUNDAMENTAL TIPPING OF THE SCALES**

The last 25 years have witnessed a fundamental change in state and local land policy, reflecting a revolutionary change in attitudes towards immigration and growth. Local governments used to compete to attract people; now they seem to exclude them. In the battle of boosters versus knockers, the knockers have won going away.

We have had low density policies with us always, but in the past they were different. King George III, for example, wanted to reserve the lands west of the Appalachian crest for the Indians, but he really didn't care about preserving their low density way of life. His idea was to keep English colonists in the east and under better control. Alexander Hamilton soon revived the same idea after the revolution and his expressed motive was to retain cheap labor. George III's containment policies lost out to the revolutionaries and Hamilton's lost out to the Jeffersonians. Since then successive waves of both containment and expansion forces have been at work. The expansionists have always won more than they lost—until now. But our generation has seen the greatest proliferation of exclusionary selective and containing land policies ever to exist in North America.

### **Philosophical and Linguistic**

Consider the evolution of the word "speculator" as a pejorative. A speculator used to mean someone who withheld land from use, waiting for the rise. Now it means someone who would develop it for a higher use, as often as not. Twenty years ago I wrote a dissertation on land speculation and, after scanning the literature on the subject, had to conclude that the only consistent meaning of speculator is a land owner you don't like. In the old days people didn't like owners who withheld lands; today they don't like owners who develop land.

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This article is based on a paper presented by the author to the Western Agricultural Economics Association in Fort Collins, Colorado on July 20, 1976.

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Witness the evolution of arguments made to justify the private collection of rent. Defenders used to say that socializing rent would remove incentive to put land to the best use; now, however, the argument most commonly heard against taxing land values is the opposite, namely that it creates too much incentive to put land to its best use. Isn't this what preferential assessment of farm land is all about?

Accordingly, if we carefully read the so-called anti-speculation laws, like those in the state of Vermont or the province of Ontario, we note that they are punitive and anti-developmental in their spirit and impact.

In passing, note that the people are right who argue that taxes on land values tend to push land into a higher use. This is sometimes overlooked by those who have their eyes fixed on a lower use and see heavy fixed charges on land driving it out. Such charges, whether privately collected rent or publicly collected taxes, serve the function of driving out lower uses in order to reallocate the land to higher uses. This point is sometimes missed even by economists who should know better. Some, in seeking to explain the decay of central cities, have alleged that high rents drove industry away. In general, that does not make much sense.

#### Provincial and State Zoning and Exclusion

Municipalities of exclusionary bent have been around a long time, but the exclusionary-minded state and province are something new. Some states (New York and Massachusetts come to mind) have made gestures towards pre-empting the zoning power of local governments when this was used in an excessively exclusionary way. The stronger movement, however, has been towards anti-growth policies by provinces and states, such as Florida, Oregon, and Vermont.

In Canada, British Columbia is one outstanding example that I have observed closely. Their exclusionary stance has to do with public policy discouraging the conversion of farmland to urban uses, above and beyond mere preferential assessment of farmland which British Columbia has also had for many years. The newer device is exclusive agricultural zoning imposed by the province on a province-wide basis. It is administered from the top down by a provincial commission, the British Columbia Land Commission, which classifies land as agricultural and places it in the Agricultural Land Reserve (more familiarly the ALR). Through this straightforward device, a great deal of land with speculative potential has been effectively withdrawn from consideration for urbanization in the immediate future.

The Land Commission Act, originated over loud protests in 1972-73 when the New Democratic Party first came to power, enjoys fairly strong support. It was unusual in at least two respects: its wide coverage (since it is provincewide) and the decision to allow no compensation for the loss of development rights. Actually, the imposition of low density zoning is not normally accompanied by compensation, so this is not as unusual as its critics may have inferred. In the 1975 election campaign, the leader of the New Democratic Party, Premier David Barrett, seemed to sense that the Land Commission Act was among his more popular measures and campaigned on it as a major achievement. He may have been wrong for he did lose the election resoundingly, but

on the other hand the newly triumphant Social Credit Party (or Socreds) did not indicate a disposition to repeal it and so far have not. It would appear to have a measure of bipartisan support.

At the same time, one must observe that a high degree of uncertainty prevails about the future of the ALR. Land which is in it and zoned exclusively agricultural, is still being bought and sold at developmental prices. It seems that the market does not altogether believe that this zoning will hold.

Meantime, ALR zoning did succeed in stopping further sprawl. It also forced urban real estate prices up to incredibly high levels. These high values, with the pressure they brought towards intensive development, might have stimulated infilling and redevelopment of the urban areas. But a decentralist campaign was launched against further development of the central cities in the lower mainland particularly, and there was a strengthening at the local level of a variety of exclusionary devices, such as impost fees charged for new developments. It was not merely sprawl that was made more difficult; it was building and development in all areas.

The result presented the anomaly of a government which sometimes called itself "Socialist." The New Democrats are an amalgam of Socialists and New World Populists and, like most political parties present a mixed and sometimes confusing personality: that of a Socialist government creating an artificial scarcity of land, in effect choking off building and raising property values and rents to the great distress of the landless laboring classes.

The actual location of ALR lands was not based on containing sprawl, except incidentally. Rather it was based on a Canada Land Inventory classification of agricultural land, a classification conducted by agriculturally-oriented soilmen without much regard for urban alternatives. Thus, good farmland near in whose best use might be urban cannot be urbanized, while bad farmland far out may be, even though it should not be. Nothing whatever has been done about the fundamental problem of utility rate structures, so that utilities can and must still run their lines anywhere anyone chooses to settle and charge common province-wide rates. And so we still get sprawl.

Of course there is nothing in this kind of legislation to clean up old sprawl or encourage infilling. On the contrary, it gives grandfather-clause monopoly protection to ancient and honorable sprawl and assures its perpetuation. Worst of all, by creating the illusion that something constructive is being done, it pre-empt the field and discourages other actions that might be more effective.

On an international basis, the policy has also encouraged a great deal of sprawl from British Columbia spilling over to the state of Washington, where land is much more available.

As a land planning device, therefore, the ALR does not get the highest mark. It is not, in that sense, a "fundamental" change, but it is successful and it is fundamental in another sense. That is, it has been successful in retarding the growth of population.

Was this just stumbling and bumbling by a green raw cabinet as alleged? In my opinion, people generally get what they really want, regardless of what they say they want. Exclusive agricultural zoning in rural British Columbia

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coupled with low density zoning and heavy impost fees in urban British Columbia have worked together quite consistently to slow down immigration. This is the point of consistency; ergo, this is probably what was really wanted.

I have lived in many places, a few in which people did not think that they had something very special and that the world would flood in and overwhelm them if given half a chance. But when you say this to people in British Columbia, hoping thereby to encourage a little objectivity by getting them to laugh at themselves, the answer is: "Yes, but British Columbia is different; here it's really true." "Socialism" in British Columbia was a device to use the power of government for the purpose of excluding immigrants and increasing the value of property.

I recently examined some figures from the B. C. Assessment Authority which has placed a 100% market value on all the taxable real estate in British Columbia. In the Vancouver Assessment Area (which means, basically, the city of Vancouver) the total value of land alone, without buildings, is \$10.7 billion and the mean value per parcel is \$115 thousand. The top ten percent of the owners measured by value own 73% of the total value of land. The top one percent own 62%. As a ballpark estimate, the value of land in Vancouver doubled from 1972-1975. It would be hard to argue that a policy which contributed to the doubling of value of an asset as closely held and so large in relation to the government's welfare budget and other equalizing devices, was a step in the direction of the egalitarian ideals sometimes associated with the word socialism.

In fairness, one must record that the members of the Land Commission vigorously deny that their zoning activities had anything to do with this increase in urban values, which they believe would have occurred anyway. I do not know anyone else who agrees with them (certainly not I), but no doubt other factors were involved as well, and we will never know just how much of the increase they were responsible for.

A secondary objective of the legislation was to punish evil men called land speculators. They were evil because they made money—or were they? When we analyze it, the punitive spirit has not been directed at making money as such, for some five billion dollars has been made by the doubling of land values in Vancouver without that being called evil. No, the animus was directed against the evil of intensifying the use of land and increasing the capacity of British Columbia to absorb immigrants. This is the unpardonable sin.

It is not my intention to seem sarcastic or critical. The province may have legitimate reasons for wanting to exclude people. My purpose is simply to brush aside the cloak of conventional cant and hypocrisy to get a handle on what was really done and for what reason. After that, we can better come to grips with it.

#### **Preferential Assessment of Farmland**

More common than exclusive agricultural zoning is the preferential assessment of farmland. The Maryland legislature started it back in 1956 and doggedly pushed it through in spite of vetoes by Governor McKeldin and a declaration of unconstitutionality by the Maryland Supreme Court. Prominent among the

proponents was Spiro Agnew and I am tempted to think of this as his contribution to American culture; but he was not alone, for California came along in 1957 and so did several other states. I, false prophet that I was, confidently said at the time it wouldn't fly. My exact words were to the effect that anything that cannot bear analysis will do better under the table than over it. This was in reference to the fact that preferential assessment of farmland had been occurring under the table for many years before these laws were passed; indeed, the laws were only necessary because of the assessment reforms which were beginning to undermine the long-practiced de facto underassessment of farmland. Preferential assessment of farmland spread from state to state and has enjoyed wide popular support. British Columbia joined the parade some time ago.

Preferential assessment is a fairly fundamental change in the philosophy of land taxation. It makes the part of the property tax that falls on land a penalty tax on growth. For example, land near Vancouver which is farmed is assessed at 3 or 4% of its market value compared to 50% which is the normal assessment ratio. In other words, it is being assessed at 6 to 8% of what it should be. But if someone converts the use from agricultural to commercial or residential, the land assessment rises 10 or 20 times. The effect, of course, is to slow down the conversion of land to more intensive uses. As I indicated before, people usually get what they really want, and I am inclined to think that is the objective.

There are numerous other devices for stopping growth and excluding immigrants. A moratorium on sewer construction can be very effective, as the Washington Sanitary and Sewer Commission has demonstrated over the last four years. Impost fees are an effective device, as shown by British Columbia. Indeed, almost any sovereign power which has been delegated to a local government can be used in an exclusionary way and many of them are. Rather than cataloging them all, let us just note that they are numerous.

### REVERSAL OF ATTITUDES

Dozens of reasons are advanced to explain the growing hostility towards immigration and population growth. The ones that make sense are primarily environmental and fiscal.

#### Environmental Reasons

People have always valued their environment and resisted invasions of it. Sheepmen and cattlemen didn't like each other, cattlemen didn't like sod-busters, and wheat farmers didn't like irrigators. Yet, the attempt to force exclusionary policies lost out. What now has changed? Or is all this environmental talk just hypocrisy, hatred of man masquerading as love of nature, as I once thought?

Higher per capita wealth and income is certainly a factor. Cleanliness is next to affluence; more affluent people can afford to sacrifice profit for amenities. It has always been the higher income suburbs that zoned out commerce and industry while the blue collar suburbs competed to attract them. Now we simply have more high income suburbs.

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The technological multiplier of personal offensiveness is an enormous change which has not received nearly the weight due it. Modern capital-intensive recreational technology particularly has multiplied by an enormous factor what we may call the "offensiveness-efficiency" of normal human behavior. When we look at the evolution of technology in this light the only kind of personal offensiveness that technology has abated in the last 30 or 40 years is body odor, replacing it with stale tobacco smoke. As to other factors, I'm reminded of the parent whose juvenile delinquent son was sent on a trip around the world. A freind inquired, "will travel improve his behavior?" "No," said the parent, "but it will spread it over a wider territory."

People don't need much space for the true pleasures of life: reading, writing, walking, swimming, hiking, gardening, jogging, cycling, conversing, and so on. What truly requires inordinate areas are motoring, golfing, hunting, flying, skiing, all-terrain vehicles (shudder), snowmobiles, motorcycles, rock and roll bands with P.A. systems, portable radios, power mowers, and noise-making of all kinds. Equally demanding of space, although less numerous, are those individuals who require huge, sparcely-populated wilderness areas to escape the personal offensiveness of the technologically efficient polluters.

A homesite on a noisy street drops in value and cannot qualify for mortgage loans. A house on a quiet cul-de-sac commands a large premium. Everyone hopes that his neighbors or the police will take care of these matters and few people like to talk about it, much less do anything about it, but the market betrays the evidence. People are bugged not so much by other people, but by the modern machines which magnify their thoughtlessness or, in the case of disturbed males of a certain age, undoubtedly their intentional offensiveness. Things that we used to laugh or gossip about have become major economic factors.

There is also a decline of traditional social controls with a corresponding rise of irresponsible behavior. The phenomenon is obvious to one and all. There are solutions, but they are generally labor-intensive solutions which involve policing, counseling, and the development and support of local authority figures like clergymen and teachers. Anything labor-intensive has gone out of style in the last generation. The trend has been to substitute land and capital for labor in almost all circumstances. In terms of social control that arranges land settlement patterns in such a way as to eliminate problems by neighborhood segregation and regional segregation: "Keep the pests out of our neighborhood and then out of our state and our country." All this involves exclusionary policies and an enormous increased consumption of land and the capital necessary to develop land at low density.

#### **Fiscal Causes**

Some of the fiscal reasons for the increasingly hostile attitude towards immigration and population growth are:

*Rising expectations for public services.* Immigrants to a neighborhood, city, or state are no longer aliens from Europe or Asia. They are native citizens from way back; they have high standards in terms of public services, frequently higher than those of old settlers. They are likely to be sold on the value of

generous public support of education. Lower income people who used to drop out of school early now demand more schooling than ever before, even up to the junior college level. In their book *Modernizing Urban Land Policy*, Marion Clawson and Harvey Perloff said that consistency with the reforms of the Warren Court called for equal opportunity in access to land, for housing in particular. So they predicted a decline in exclusionary policies. With great respect for the authors and a sharing of their ideals, I suggest a more pessimistic interpretation. Exclusionary land policy can be and is used to substitute for other kinds of discrimination. The fact that newcomers can vote, as well as claim legal rights and public services, increases the motivation of old settlers to keep new settlers out. Human experience is not marked always by consistency, but by compensatory devices.

*High federal personal taxes.* The federal Treasury now relates to individuals as their net exploiter. Alfred Marshall distinguished what he called onerous taxes from beneficial taxes. Onerous taxes were those in excess of public benefits received, while beneficial ones were matched by equal public benefits. (I don't know why he didn't have a third class of taxes which were less than public benefits received, but you can draw your own conclusions about that.)

When persons move into a region, a big share of their income goes off to Washington or Ottawa. The federal government's extraction of the cream reduces what the traffic will bear for local taxes. Of course, the federal Treasury returns subsidies to localities. Note however, these do not go to individuals, but to local governments. Thus local governments get revenues without necessarily having people. The Feds are inclined to grant subventions for capital-intensive things: sewers (where most of that so-called pollution control money goes), water supply in part, highways, hospitals, suburban housing. All local public works, of course, are subsidized by the federal exemption of the income of state and local bonds from taxation in the United States. Thus the Feds help the locals bear the high capital costs of low density sprawl.

Most of these capital-intensive facilities render "services to property and not to people." A great point is made currently that property taxes should not pay for services to people, but only services to property. The fact is, on a large scale, people pay for services to property via the federal budget, but little is said about this. Ironically, it is considered "liberal" and egalitarian to set up fiscal matters in this way.

If I were a landless orphan, blinking my eyes at the wonders of this world set up by others for others, I would wonder at the justice of a system which levied a payroll tax on whatever I earn, and income tax on my salary, in order to make capital grants to municipalities which borrow the sovereign power of the state to zone land in such a way as to prevent my living there. I would wonder at the values of the people who said that I was a net fiscal liability who was not carrying my weight. Be that as it may, that is the way local governments regard the immigration of landless orphans and the result is a growth of exclusionary local policies.

Compare the present fiscal situation with that existing just after World War II, the time in the United States of the G. I. Bill. A veteran moving into a locality received, in addition to the gratitude of his new neighbors for services ren-

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dered, a substantial federal subsidy which attached to him as an individual. He could carry it around from place to place, he could get loans for housing and tuition for education. In addition of course, he was about to become a regular taxpayer and would not be producing school children for a few years at least. Immigrants under that arrangement were much easier to accept than they are under present arrangements.

#### **Federal Subsidies to Urban Sprawl**

We have had a generation of subsidies to housing for the lower-middle class; we have apartments being built for tax shelters; we have enormous federal subsidies for highways. All of this has made housing expansive and intrusive. It has come to saturate the absorptive capacity and the tolerance of local governments in a way that probably never occurred before.

#### **Increased Suburbanization and Balkanization**

Owing to the proliferation of suburbs and the growth of each one, metropolitan decisions are now divided into fractions. Although everyone may recognize that there are advantages to urban scale, they want the advantages without the disadvantages and they have a chance to get them. The suburbs borrow their scale from the central city to which they have occasional access when needed. No one wants the dirt and the garbage, and no one gets the exclusive benefit from creating economies of urban scale. Suburbs easily fall for the fallacy of composition: if low density is good for us, it is good for everybody.

#### **Increasing Cross-Subsidy**

The urban world is increasingly dependent on public utilities. Access to land is no longer enough; the land has to be sewered and watered. It must have telephone service, power lines, probably natural gas, and so on. In low density areas the volume of service per mile of line is much lower than in high density areas and the costs in low density regions are correspondingly higher. Yet the rates charged are usually uniform; in fact, they frequently favor the low density areas because of quantity discounts based on the volume per meter.

Since the high density areas subsidize the low density areas, the inclination is to become a low density area if you can. This factor undoubtedly increases the attractiveness of exclusionary policies.

At the same time, this factor makes central cities unwilling to let low density suburbs latch onto them. This is quite a reversal from the Roaring Twenties when cities were so anxious to grow that they carried a variety of capital costs for land developers. But now, without quite knowing why, central cities are getting the feeling that they have been had and the result is a spasm, not always rational, of anti-growthmanship.

This leaves four basic causes for the growth of exclusionary policies: environmental, fiscal, particularistic, and responsive to the incentive created by cross-subsidies.

#### **LESSER CAUSES OF ATTITUDE CHANGE**

Now let's take a look at some other reasons which I believe do not bear analysis or carry so much weight.



*Reduced regional rivalry for representation based on population.* History records several races for regional dominance in the legislature by attracting population. Has this motive disappeared? On the contrary, reapportionment now occurs faster than it used to and the government passes out more largesse than it used to. This may prove the undoing of the exclusionary movement.

*The population control movement.* To relate this to exclusionary zoning is pure romancing. Exclusion is not the route to zero population. It is a zero-sum game. Here we are back at the fallacy of composition, or overgeneralizing from subsystems. Some people believe a reduction of density on their block will reduce it everywhere. There are also those who claim that keeping apprentices out of their union local and raising their wages, will increase wages everywhere. If you think about it, excluding people from one block must raise density everywhere else, or at least somewhere else.

In terms of solving the problem of population pressure on the earth, exclusionary policies are very expensive. All the gains of exclusion are offset by losses elsewhere, but all the losses are real. These losses (or costs) are the enormous capital and resources requirements of low density settlement.

*The alleged reduced influence of land developers on local governments.* There may indeed be some increase in local democracy, but the influence of big land owners is not dead. It is alive and well under the rock and is merely exerted in a different way. Land controls are now used to hold down land assessment and taxes until that time when the collectivity of land owners is ready to sell out to higher density users.

*Aid to poor small farmers.* There has been a good deal of rhetoric about widows driven from their homes and engulfed by high-powered alien sub-dividers, disrupted families, forced sales of old homesteads, dislocation, unemployment, and so forth. The above verbiage is all found in a dissenting opinion filed in Maryland in 1960 when the State Supreme Court declared the original preferential assessment act in violation of the state constitution.

I have put together some data from the computer bank of the British Columbia Assessment Authority on the concentration of ownership of different property classes in the several assessment areas in the province. In the Richmond-Delta assessment area, a part of the Vancouver urban fringe, the Gini ratio for farms is .70, for industrial property .63, for residential property .32. The only kinds of real estate more concentrated than farmland are commercial and exempt.

The mean value of farm real estate can only be estimated since these farm assessments are based on capitalized farm income rather than market value. Consultation with the assessor, however, suggests \$150,000 as the correct mean value, as compared with \$143,000 for industrial property. These figures, note, apply to land only. Ah ha! you say, but the industrial property has a higher ratio of buildings to land values. True enough, but it's the land value to which the preferential assessment applies. Ranking the farms by size shows that the smallest ones are not very land-intensive at all. Most of the land by a wide margin is held by the top ten percent, where most of the benefit goes. If we want to help that class of property whose mean value is the lowest, resi-

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dential and condominium property is the place for relief. If we want to help those farmers whose assets are small, farm improvements and farm labor need relief, not farmland.

But what about the low income of farmers? A recent presentation by the B. C. Federation of Agriculture to the Commission of Enquiry into Property Taxation presented data on farm income in which part-time farmers were counted as full-time people but only their farm income was counted as income. The whole person went into the denominator but only a fraction of his income went into the numerator. Correcting for this, per farmer income in British Columbia is not lower than urban income. I wonder how many other studies contain this obvious flaw? Is it possible that such shoddy data might have gone unchallenged by professional economists for years? I am afraid so. Look at the generally-accepted material alleging that the property tax is regressive. All kinds of pap was churned out, complete with the most elementary statistical fallacies. When people are determined to believe something, anything goes; I'm afraid that is the lesson of intellectual history.

*Preferential farmland assessment granted to recognize the special land-intensity of farming.* Data collected by economist Allan Manvel for his study for the National Commission on Urban Problems, showed that farmland values were much higher relative to urban values than I previously thought. The aforementioned B.C. data suggests quite otherwise in this province. Of course, there is no high degree of accuracy on the land-to-building ratios indicated near major cities owing to the preferential assessment of land. There is a strong clue to be found, however, by comparing land/building ratios in metropolitan areas to those in remote rural areas. Here the finding is quite striking. In the Vancouver assessment area, the percentage of total real estate value (which is land value) is about 78%. But when we get out to remote Trail, it is more like 13%; in Port Alberni it is around 35%, in Penticton 32%, and so on. One should not hasten to conclude, therefore, that preferential land assessment is an acknowledgment of the high land intensity of low-income farmers. The facts do not support it. According to my data, if we want to find high land intensity we should look at real estate activities classified as "commercial." There is another class called acreage which is 99% land value, so commercial does not include purely empty speculative holdings. And while we are talking about tax exemptions, it is worth noting that the next most land-intensive class of property is that called "exempt." A stroll around the campuses of any of the province's universities will give you a good idea why.

*The loss of scarce farmland.* It is hard to take this rationale seriously. In the days of the soil bank, the conservation reserve, and so on, it was altogether laughable. Now that such programs are clearly on the wane, it might make a little more sense. But let me record an exchange I had two months ago with the agricultural representative of the B. C. Land Commission, who was defending the Agricultural Land Reserve. It is a terrible thing, he said, that farmers are leaving the land. Yes, I agreed. We are losing our capacity to produce food and fibre, he warned. That is bad, I agreed. Warming to our topic and sensing a common interest I said, let's get more farmers out on the land producing food and fibre. Hold on, he said, that could create problems. I continued,

let's intensify the use of land, let's get more out of each acre, let's get more food to the consumer. Stop! he said, are you crazy? That would lower food prices. But, but, but, I sputtered, I thought . . . No way! he said, if you lower food prices you will drive all farmers out of agriculture forever, and then where would we be? My objective is to hold this land in reserve for the next century, so we will have something to leave our grandchildren.

I will draw the curtain of charity over what I said or wanted to say in response to that, but it's going to take a fundamental change in the attitudes of farm spokesmen before anybody else can believe they are very serious about the danger of running out of good farmland.

**Containment of urban sprawl.** No, I cannot buy that one, because urban planners are as busy at the centers of cities trying to lower density there as exclusionary suburbanites are at the fringes. One group of planners kicks people out of the cities and the second group forces them back in. The common result is to make things tougher on people who are looking for a place to land. There is no consistent rationale of city planning to be observed other than exclusiveness.

#### LIKELY DAMAGES FROM EXCLUSIONARY POLICIES

Exclusionary policies may create such undesirable situations as:

**Low density living.** This is not only expensive; it increases the land, capital, fuel, and commuting time costs of life, and reduces the effective levels of constructive urban linkages and synergism achievable for any given costs.

**Structural unemployment.** When areas or jurisdictions stop competing to attract people, and worse when they compete to exclude people, they weaken the quest for payrolls. Now, everyone wants to attract capital intensive industry, if any industry. Labor, especially cheap labor, seeking employment is driven from pillar to post. The rate of unemployment of teenage blacks is up to 40 or 50%. Could this relate to the fact that so few jurisdictions encourage the entry of the kind of employers who might offer them jobs?

**Locational segregation.** The sorting of people according to wealth and income is now carried to great extremes in American cities, replacing other social controls. But is it replacing them, or are there simply no social controls over many segments of society now, other than police, and often not them? And what about the high economic costs of locational segregation? There is a natural flow of exchange between high and low-income people, which is made very difficult by locational segregation.

**Division of society into classes.** When the value of property rises and remains high, it naturally divides society between those who have and those who do not have property. Always before in North American history, the exuberance of land developers and competing jurisdictions has brought down the value of real estate and blurred the distinction between the haves and have nots. Now, on the other hand, we are in danger of developing a class structure more rigid than anything ever seen before over a long period of time on this continent. A class structure without social controls leads to divisiveness, crime, hostility, counter-culture, welfare dependency, and the other unpleasant situations we see burgeoning today.

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**Inefficient allocation of land.** Exclusionary policies require planners. Planners are generally allergic to market conditions. If they have an engineering background, they talk about "requirements," or fixed coefficients of land per person, which are independent of price. Some of them are recreationists, who regard lower economic uses as higher social uses and would sacrifice commerce and industry to parks and wilderness areas. I cannot forecast the results in detail, but can guarantee you they will be less efficient than anything concocted by a free market.

**Absentee ownership.** One of the historical motives for encouraging immigration was to put settlers on land of their own and reduce the number and power of absentee land owners. Excluding immigrants undoubtedly has the opposite effect. If we want land safely in the hands of a passive investor who only wants security for the future and has no plans to use it, there are many in Germany, Switzerland, Belgium, and elsewhere who are happy to oblige. However, I seriously doubt that this is the way to create healthy communities.

## **SOLUTIONS**

Exclusionary policies have a harmful aggregate impact which is quite different from that intended by their local sponsors. It behooves us therefore to seek solutions, whose nature follows quite directly from the analysis of the problem.

### **Fiscal Aspects**

We must simply reverse the fiscal arrangements that create the problem. Instead of levying onerous taxes on individuals, the federal government should reduce their tax burden and replace it with increased property taxes. I do not mean that the federal government should invade the field of property taxation currently pre-empted by provincial, state, and local governments, although constitutionally this could be done if required. However, it should only be necessary to reform the income tax in a variety of ways that have been recommended by many tax reformers for other reasons anyway. Close the loopholes now available to property and open some for labor.

On the granting side, federal grants should go to persons in the forms of social dividends rather than to governments in the forms of shared revenues, capital grants, and so on.

States and provinces too are in the business of granting subventions to local governments. These grants could be changed and allocated to persons instead of governments. For example, California, in response to the Serrano decision, could go to a statewide property tax and distribute school aid in the form of vouchers to school children. Or it could base school support on average daily attendance.

Central governments should reduce or eliminate grants made to local governments, which are essentially a collection of local land owners working together to maximize the value of their land. Grants to local governments are essentially grants to land owners, therefore grants which increase their wealth without requiring them to turn the land to the service of other people. Conceivably a local government might have only one land owner, in which case the situation would be dramatically clear; in fact, there are such cases. For instance, a special service district in the San Francisco Bay area is clothed with

the powers and immunities of sovereignty, representing only one land owner. There are company towns everywhere, many in British Columbia, with essentially one owner. I have always been mystified at the frame of mind among certain Washington or Ottawa liberals who believe there is something socially wholesome about taxing the payrolls of poor working stiff to share revenues with the owners of these company towns.

Federal authorities in Canada and the United States both could limit the local use of taxes that repel population, thus forcing greater reliance on promotional taxes. Under the British North America Act provinces are theoretically limited to the use of "direct" taxes; if Ottawa wished this could be construed very narrowly to prevent the provinces from taxing sales or, for that matter, anything except land, because the land tax is the only one which, to my knowledge, can never be shifted and therefore deserves to be called "direct."

#### **Environmental Measures**

The nature of the solution is dictated by the nature of the problem and consists of at least six measures. First and most obvious, is direct action against polluters and noise-makers of various kinds. Second, is a reduction in the technological multiplier of personal offensiveness. This may be achieved by a combination of taxation, direct controls, and outright prohibition of technological apparatus whose external offensiveness is large relative to its possible value to the owner. I never cease to find it incredible, for example, that communities should allow irresponsible children to possess mini-bikes and that it should require the intervention of a policeman to stop them from issuing loud noises that may disturb the peace for several blocks around. Third, is a general increase in the quality of personal behavior and considerateness. Fourth, is a decline in the incentives for ownership of personal consumption capital. I do not mean that we should impoverish ourselves. I refer to the bias in the tax system, whereby capital devoted to the service of others earns money income which is taxed while capital devoted to personal use yields imputed income which is tax free. Fifth, would be a decline in the amount of public space which is made available to polluters. Sixth and last, would be a decline in the ability of the leaders of society, the people with the real clout, to escape from pollution, to go off to or beyond the suburbs and surround themselves with lots of space. This is part of the whole pattern of locational segregation which I have been criticizing. Anything that weakens the ability of social leaders to escape from the problems which they create will, of course, increase their incentive to solve those problems for everyone.

#### **Suburbanization and Balkanization**

The orthodox "good guy" solution to this problem is to expand urban jurisdictions into metropolitan jurisdictions. I do not favor this myself, because metropolitan settlement has already proliferated over four or five times as much land as would be economically desirable for the number of people involved. And the metropolitan jurisdiction would undoubtedly be a vehicle for strengthening the cross-subsidization of the low density neighborhoods by the high density neighborhoods, the economic institution which created half the problem in the first place. The solution is rather for the remains of the central city to pull itself together and adopt growth-oriented renewal policies which

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would cause it to suck in most of the proliferating demand and become a city once again.

### **Cross-Subsidization**

Many seers have pronounced it hopeless to set up a rate structure that was anything but uniform over wide areas. They are mistaken. We already have declining block rate structures and the current movement towards inverted rate structures is a practical step in the direction of encouraging smaller customers, and smaller customers characteristically live at higher density. A more direct approach is taken by utilities in California and the U. S. Pacific Northwest. Zonal rates provide higher electric rates for areas of lower density. Pacific Gas and Electric is the leading example, since it has five zonal rates for its service which ranges from very rural (less than ten customers per mile of distribution line) to the high-density Oakland-San Francisco area with over 200 customers per line mile. What is needed is a reinforcement and extension of this good example.

At the same time, of course, we need pressure towards "positive containment." Scattered settlement is often blamed on people who choose to locate far out and, surely enough, they share the blame. Equally responsible, however, are people who own land near in but fail to develop it intensively. Their role is normally overlooked. What is needed is the positive pressure of a stiff land tax based on the value of centrally-located lands to encourage intensive central development in a positive way.

Just how we get from here to there in every detail is beyond the scope of a short paper. I have tried, however, to indicate that these are not far out and unthinkable proposals, but merely extensions and applications of practices already observed in some places. Thus remedial policy may be fundamental and effective without being revolutionary or catastrophic.