





## **Two Simple Changes To Our Unaffordable Musical Chairs Housing Market**

Joseph Polito  
*Kingsway Humber Kiwanis Club*

*No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. --Adam Smith*

*We Drive into the future looking through a rear view mirror. – Marshall McLuhan*

	<p>It is vain in a country whose great fund is land to hope to lay the public charge on anything else; there at last it will terminate.</p>		<p>Ground rents and the ordinary rent of land are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them.</p>
<p>John Locke</p>		<p>Adam Smith</p>	
	<p>A tax on rent would affect rent only; it would fall wholly on landlords, and could not be shifted to any class of consumers.</p>		<p>Our legislators are all landholders, and they are not yet persuaded that all taxes are finally paid by the land, therefore we have been forced into the mode of indirect taxes.</p>
<p>David Ricardo</p>		<p>Benjamin Franklin</p>	

## Introduction

I am a member of a Kiwanis charitable service club. Some of the needs we contribute to are foodbanks, food kitchens, shelters, wheelchair hockey, and school programs.

I taught many High School subjects for 40 years including Economics. This presentation will rely on the titans of Economics, Adam Smith, and Nobel Laureates such as Milton Friedman and Joseph Stiglitz. Any concerns about recommendations should be directed to them 😊. For any expert I reference there are hyperlinks and videos for a deeper dive.

I took an undergrad course with **Marshall McLuhan** in 1968. He is quoted on the cover page to emphasize that the change is a modest forgotten paradigm shift advocated in the past by great minds to **unite the nation with a common goal – housing for all.**

### Part 1: Summary:

**The Musical Chairs Economy.** In the Children's game there aren't enough chairs. In Canada there is not enough housing. With two simple changes you can **replace this inequitable model with an Economic Opportunity model.**

President **Roosevelt's** [proposal](#) to do that (including a right to housing) failed because he died before he could legislate his plan. Our legendary **Frank Stronach** echoed FDR, **our constitution "needs to be fortified with an economic charter of rights."**

The First African-American Economist, **Sadie Alexander** worked with the Roosevelts and Martin Luther King, advocating: **to overcome inequality and poverty and discrimination toward any group, ensure all have living wage jobs.**

**King asked**, what does the right to go into a fine restaurant profit us, if we cannot afford the food?

These two simple measures prevent the accumulation and hoarding of land. These two simple measures reduce the price of land which is a major reason housing is unaffordable. To supply more housing, to afford more housing, we must lower the price structure.

#### **A. The First Change: Fix our capital gains tax**

By reducing the inclusion rate for capital gains, we encourage the free market to invest in productivity enhancing capital equipment. However we create the wrong investment practises when we tax what is essentially land value appreciation as if it was the productive output from capital investment. We are encouraging investors to buy and hoard land while it appreciates. A [BMO affordable housing report](#) recommends we

address both affordability and sagging business investment by, “Broadly increasing capital gains inclusion rate” which are charged to commercial real estate sales and non-primary residences. In the next 45 seconds of this [video](#), Joseph Stiglitz explains why commercial land appreciation should not be designated as capital gains. Land and resource owners are making a profit on “their ownership claim on these resources which are God's gift to the world.” He says that the ever-increasing [land prices of the Riviera](#) “doesn't mean that France is more productive; it's the same amount of land.”

**Recommendation:** *Raise capital gains inclusions for real estate slowly until it reaches a point in which investors no longer look at land price inflation as a desirable investment strategy.*

## **B. The Second Change:**

### **Help fix for the property tax system.**

Milton Friedman in this [video](#) supported the literature on land taxes. In Vancouver, a century ago, a land value tax system increased residential construction while making prices and rents more affordable. Lobbying eventually ended it and ended affordable housing in Vancouver. A paper by Professor England, details these events: [Land Value Taxation in Vancouver and the Tax Revolt](#). Politicians must understand that the housing market will continue to fail, if we don't reduce land prices.

The reason land appreciates is because the land owner captures the benefit of the community's investment. In a location that has schools, roads, fire stations, hospitals, universities, public transit, sewers, clean water etcetera, the location is much more desirable to live in. With land taxes, the return on those investments are returned to the community.

Four Nobel prize-winners Franco Modigliani, James Tobin, Robert Solow and William Vickrey – were among the signatories to an [open letter to Mikhail Gorbachev](#) in 1990/1991. They implored him not to make the same mistake we made, which has permitted the economic power of feudalism and enclosure to be retained in our democratic, free market system.

Adam Smith addressed this unjust economic power of [enclosing the commons](#) in the **Wealth of Nations**, but we have yet to recognize his genius. From 1604, over 5000 enclosure bills captured one fifth of the total area of England.

**Recommendation:** *Assist provinces and municipalities with the expensive fix for the property tax system.*

## Part 2: Details: Two Simple Changes To Our Unaffordable Musical Chairs Housing Market

In 1950 **my one income working-class dad could afford a house; now many two income families cannot!** Sounds like a declining standard of living yet [Real GDP](#) has increased fourfold. 1950 lot costs were minimal; today lots are often more than the building. This phenomenon begs the **question**:

**Why is housing an exception to the genius of the Free Market competition which reduces costs and improves productivity?**

Aboriginal peoples around the world, and history's **economic greats including Adam Smith**, saw land as a gift of nature. **Adam Smith** proposed taxing from the landowners the **economic rent (unearned income above what competitive forces would provide)**. **John Stuart Mill** said the aristocratic landlords got rich in their sleep extracting real wealth created by the working class.

Living in the era of **aristocratic land barons**, Smith knew profit and income from simple ownership of land was unearned, he knew the **price of land should be calculated by what it produced**. The price of crops or timber or minerals or cars is determined by human effort and inputs. The prices of purchasing or renting residences or commercial spaces should also be based on costs.

**Adam Smith explained that a gift of nature was a costless item like air and water, "under competition, a costless item can never have a price.** The services of land are costless in comparison to the capital invested in the land. The price paid for the use of land is, according to Smith, a monopoly rent." ( [The role of land in economic theory](#)).

Land sales should not qualify for preferential capital gains tax rates. Capital refers to tools, innovations, buildings, equipment, machines etcetera which increase output. **Land is not capital. We do not produce it with the third factor of production – labour.**

The price for a fully serviced lot in Toronto should be about \$100,000 based on capital and investment costs, instead of a million.

Four Nobel prize-winners Franco Modigliani, James Tobin, Robert Solow and William Vickrey understood this design flaw in the housing market. They were among the signatories to an [open letter to Mikhail Gorbachev](#) in 1990/1991. They implored him not to make the same mistake we made, which has permitted the economic power of

feudalism and enclosure to be retained in our democratic, free market system. Adam Smith addressed this unjust economic power in the Wealth of Nations, but we have yet to recognize his genius. They explained capturing the economic rent of land and natural resources would

- First, it guarantees that no one dispossesses fellow citizens by obtaining a disproportionate share of what nature provides for humanity.
- Second, it provides revenue with which governments can pay for socially valuable activities without discouraging capital formation or work effort, or interfering in other ways with the efficient allocation of resources.
- Third, the resulting revenue permits utility and other services that have marked economies of scale or density to be priced at levels conducive to their efficient use.

#### **Precedents for land value taxes:**

i) In America, some municipalities have included land value in their assessment with these positive results as explained in the next two minutes of this [video](#) on housing affordability and assessment changes.

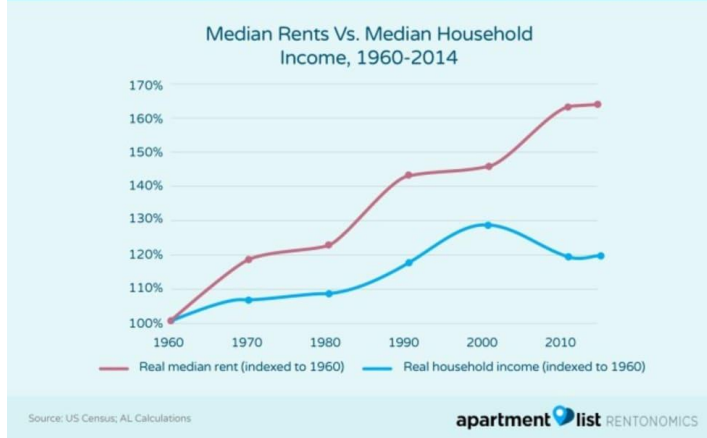
ii) In **Vancouver**, a century ago, a land value tax system increased residential construction while making prices and rents more affordable. Lobbying eventually ended it and ended affordable housing in Vancouver. A paper by Professor England, details these events: [Land Value Taxation in Vancouver and the Tax Revolt](#).

#### **Conclusion:**

**If Jeff Bezos, Bill Gates and Elon Musk were Canadians**, they could buy all the cottage property in Canada. But if they were subject to the capital gains changes in the [BMO affordable housing report](#), and to a land value tax, the land would not be profitable to monopolize. It would be sold and the proceeds would be put to productive use, as would the land.

All the other land/asset speculators would also be discouraged, the price of land would plateau and decline slowly. The more affordable the land, the more housing that can be built. **The taxes could be dedicated to public housing, and investors would look more to productive, higher return, entrepreneurial investments.**

## How Have Rents Changed Since 1960?



This graph reminds us that excess land prices also make rent unaffordable (from this [link](#))

### Joseph Polito

Kingsway Humber Kiwanis  
goodsamaritan19@gmail.com

*"In a composite nation like ours, as before the law, there should be no rich, no poor, no high, no low, no white, no black, but common country, common citizenship, equal rights and a common destiny." — Frederick Douglass 1818-95*

### Appendix: A deeper diver on reducing the price of land.

The public sector has to supplement free markets for essential goods and services. We have public education, health care, firefighting, and transportation because everyone has to have access to them. Public housing has been neglected: [Wellesley Institute report](#).

Professor Condon specializes on the topic of reduce housing costs:

<https://www.planningreport.com/search/word/condon>

and <https://thetyee.ca/Analysis/2022/05/30/Better-Broadway-Plan-Radical-Pro-Affordability/>

Professor Richard Florida has similar conclusions

<https://www.bloomberg.com/news/articles/2017-05-05/a-policy-toolkit-for-the-new-urban-crisis>

California Land Value Tax study is exploring this measure

<https://legiscan.com/CA/text/AB362/2023>

Detroit is as well <https://www.bridgedetroit.com/why-a-legally-complicated-tax-change-could-benefit-detroiters/>