

Intelligence MEMOS



From: Edward Glaeser
To: Canadians Concerned about Housing Prices
Date: March 4, 2020
Re: **SOLVING THE HOUSING PRICE CRISIS, PART II**

The regulations and structures around housing markets are essentially rigged against the millennial generation trying to break in to the market. They protect existing homeowners against both the nuisance of new construction, any potential negative side effects of having new building, and changes in property values.

This is not an accidental error, which is why it's so hard to fix. Residents of traditional bedroom communities have every incentive in the world to block new construction. But there are losers as well – the young, the people who aren't owners – who pay the price from a system that seems rigged against them.

The only real solution is an increase in supply. We need to make it possible to build so that people can come to great cities.

One tool would be to move away from property taxes to land taxes, as first advocated by Henry George in the late 19th century.

A land tax is based on the market value of the land alone, without your house on it. No matter how much you add, you don't pay more.

A downtown parking lot would pay the same land tax as a skyscraper.

By getting rid of the property tax, you'd get rid of that disincentive to build and you'd pretty much ensure that the vacant parking lot is going to go to the hands of someone who's actually going to be able to get value out of it, which invariably means development.

Infrastructure, mainly paid for by property taxes, would be covered by user fees. The land tax would never distort how much density you could add. Sewage, water and electricity are paid by fees that would fully encompass the actual cost of delivering infrastructure. You don't subsidize those things with property taxes.

Roads need better pricing, as well. We need to ask ourselves whether or not we have the right policies towards driving. In the US, we've moved away from having gas-tax-funded highways towards having highways funded by general revenues.

Setting aside the issue of climate change, it's not that we necessarily have anything against people driving, but there's clearly no reason to subsidize it. We need users to pay for the infrastructure they use, for their carbon footprint, and of course the impact of traffic congestion.

And that means actually paying in some sensible way. You can do this now with electronic GPS-based charges, time of day in the car. It doesn't require you to wait on any tolls like in the old days.

That means we need to make sure we get autonomous vehicle taxes and tolls properly designed from the start, because if you try to impose a tax on something that's previously been free, voters go ballistic.

If you give people a new highway, they'll usually accept that it requires a toll. Likewise, if we start from the principle that autonomous vehicle users will pay for the congestion they create, people will accept that. But if they spend the first 10 years of autonomous vehicles for free, then they're never going to accept it.

The same principle applies to housing markets. To avoid protest, property taxes can be continued, but new builds and expansions could become fee-based as the system weans itself over to the land tax model.

Rather than try to reconfigure everything in Toronto's property tax markets, you slowly alter it.

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