

WITH FRANK DE JONG, SPEAKER, WRITER AND FORMER LEADER OF THE GREEN PARTY OF ONTARIO



Frank de Jong was born to Dutch immigrant parents and grew up on a dairy farm north of Guelph, Ontario, and went on to earn degrees at the University of Western Ontario and the University of Ottawa. In the early 90s he became involved in Green electoral politics arguing for green tax shifting, renewable energy, preventive health care, ending funding for religious schools, minimal tuition, walkable communities, and zero garbage. He served as leader of the Green Party of Ontario from 1993 to 2009, helping the party become influential in provincial politics. Since 2000, he has become an international writer and speaker promoting the economic theories of the 19th century American economist Henry George, specifically, financing government through economic rent capture in lieu of income and consumption taxation. Frank de Jong was interviewed after his Lunch on the Frontier speech in Winnipeg, November 25, 2011.

Frontier Centre: You don't seem to fit the stereotype of the typical green politician: hostile to business, in favour of heavy taxation, and big government-style central planning. Please comment.

Frank de Jong: Exactly, I'm the opposite. Many environmentalists are agreeing that we should be pro-business because if we want to encourage businesses to go green then we have a social democracy or a capitalist democracy and that's exactly what we should have. People need access to capital to start businesses and we want them to be green businesses.

FC: Henry George is a long dead economist who advocated taxes on unimproved land instead of taxing income. Why is his name back in some circles of popular dialogue?

FdJ: Henry George's method of taxation is very pro-business because it doesn't punish businesses for their activities, it only collects government fees on the resources they use. So if a business is resource-efficient then it avoids taxation.

FC: What is the green angle to Henry George?

FdJ: It has a lot to do with land use. Presently a lot of businesses and individuals hold land out of production for speculative purposes. They are collecting more in land value than they pay in taxes. So if we shift the taxes off of buildings and improvements and onto the land then the government will collect this unearned income and it will discourage speculation and encourage the optimal use of land and that will reduce sprawl and make our cities more compact and more walkable and it will leave more land to nature.

FC: So let's put this on the record. You would eliminate income tax and corporate taxes in favour of land taxes? Very briefly, why?

FdJ: Not only land tax it's all resource use. Taxes should be on the use and abuse of nature because when you use nature it's a privilege, not a right. You should compensate the community for that privilege. It's a privilege to hold land, not a monopoly to hold land or resources and you should compensate the community for that privilege. That's the basic idea behind Henry George taxation.

FC: This would seem to eliminate a lot of jobs: all the people in the assessment department, all the income

tax collectors and accountants who are calculating income tax.

FdJ: Those are jobs that are not productive in the first place so they should be eliminated. What we want are jobs for people that are producing products and providing services and that's what this system will encourage.

FC: Seems like a pretty straightforward way to eliminate surface parking lots in downtown Winnipeg. Instead of cutting property tax by knocking down a building in favour of a parking lot, the property with a building on it pays the same tax as the parking lot. It's not complicated is it?

FdJ: No, it's very simple. What our tax structure will do is not punish people for improving the housing stock or for building new buildings. Right now a land owner says 'I'm in no hurry to build a new building because this parking lot is collecting a lot of revenue from having it as a parking lot' and that's wrong.

FC: So we can say that this model of property taxation promotes density and fights urban sprawl?

FdJ: Absolutely it does because it encourages more compact, optimal land use and that benefits everyone.

FC: Can you discuss the experience in Pennsylvania where they have a modified version of the Georgist property tax model?

FdJ: In Pennsylvania the municipal taxes are assessed on the land and the buildings but the buildings are mostly ignored with just a small amount of tax on the buildings and most of it on the land. So a whole virtuous cycle of urban design happens and people are discouraged from keeping land out of production. They put it to the best use and therefore your communities are more vibrant, there are more jobs because businesses are more active. We see an urban design that's people friendly, walkable, bicycable, there are a lot of jobs, people live downtown and there's much less wasted land.

FC: You mentioned that Hong Kong also does this.

FdJ: Hong Kong is somewhat unique in that the city or state of Hong Kong owns all the land on the peninsula. So businesses or individuals lease land from Hong Kong. Instead of paying the land tax, they pay a lease. The lease is what provides revenue for all government services in

Hong Kong and they do not charge business taxes, sales taxes or income taxes. So that encourages businesses to come there and that's why it is an economic powerhouse because businesses come there to avoid taxes.

FC: So there's no assessment on a large building?

FdJ: No, no matter how large the building it pays zero in municipal taxes so that encourages businesses to go higher and denser. That's why it's an economic powerhouse today.

FC: How does a Land Value Tax differ from conventional property taxes?

FdJ: Only in so much as it ignores the improvements or the buildings and only the land is assessed which is quite easy to assess compared to buildings. It's inexpensive, it's accurate and the municipality only applies the tax rate to the land and not the buildings.

FC: How are land values assessed independently of property values?

FdJ: It's already done like that. All jurisdictions assess every property in the jurisdiction every year and it's a continuous process of assessment and people challenge it sometimes and then there are modifications made. The routine is that the assessors assess the buildings and then they assess the land and then they combine the two and that is where the tax rate is applied against.

FC: Would LVT amount to a subsidy for owners and renters of units in multi-residential buildings? After all, the infrastructure required to service a high rise apartment is greater than what is required to service a single dwelling home.

FdJ: First of all it wouldn't be a subsidy but multi-unit buildings would see tax relief because there are many more people living on the same amount of land as a single-unit house. Those people are sharing the amount of land that's equivalent therefore they deserve tax relief because they are not monopolizing as much land. However the services to a multi-unit building are paid separately like water, hydro, etc and are not included in the property tax just services like fire and police. Actually the more people you have living on a piece of property the cheaper it is for the city to service because if you have 10 houses that's quite a long way for sewers and fire and police services whereas if you have all 10 of the units living in one property you can service it much easier. A city like Toronto has a lot lower municipal taxes than a city like Oakville because Toronto is much denser.

FC: What would be the ideal method of implementing an LVT? Would you envision a split rate LVT/property tax, or a pure LVT?

FdJ: The best situation is to just use land tax but many jurisdictions use a partial shift off of buildings onto land. You can make this shift quickly or slowly that's a political decision although most people recommend we do it slowly over 5 or 10 years so that people know what's coming and they can plan accordingly.

FC: Many growth management policies have unintentionally resulted in development being pushed further and further outside of cities. Is this a risk

associated with LVT? If so, would a province wide LVT be required to mitigate this problem?

FdJ: LVT has the opposite effect. It encourages optimization of land use and it discourages leaving land vacate or underused. What invariably happens naturally with LVT is it encourages more compact, more walkable, more people friendly, more eyes on the street, more socially cohesive communities. This will happen downtown, in small towns, the suburbs will rationalize into a number of walkable communities in the suburbs. It doesn't hurt the suburbs it just makes them more compact and people friendly.

FC: Would this penalize rural areas?

FdJ: No, not at all. It encourages the same things as it would in urban areas. It encourages the optimal use of land, encourages development to be more compact and centralized so that businesses can operate and access more people without distances in between.

FC: Let's get some of your thoughts on public policy in general: Winnipeg is a city where the downtown remains a residential wasteland. Part of it is a 30 year old policy of rent control. What is your position on rent control?

FdJ: If we had a fully implemented Land Value Taxation system you would not need rent control. The problem is now that developers and builders will not bother building in downtown Winnipeg and many other cities because if they do they receive tax increases on the municipal tax so that's a disincentive to building. There's no shortage of lumber, steel, wires or people to build buildings there's just that land is being held out of production and out of service by people who are speculating and they have no incentive to build because of tax structure. If we change the structure off of buildings and onto land then developers would build as much affordable housing as is needed by your community.

FC: So you're for rent control?

FdJ: Absolutely against rent control. It is a total negative feedback loop for builders and it does not service the needs of people at all.

FC: Are you fussed about government ownership of resources? In particular Manitoba Hydro is a dramatic underperformer in the big scheme of things. Part of it is that the provincial politicians force it to dramatically underprice electricity – a costly vestige of a romantic 1930s power at cost philosophy. How does this square with your smart green philosophy?

FdJ: We should be charging true cost price for electricity including the externalized costs of climate change if it's from coal or natural gas. We should always be paying the full price of all resources and when you don't you have to make up the difference by taxing jobs and businesses.

FC: Like cost of capital, income tax and other taxes?

FdJ: Right, there are externalized costs which means the costs of servicing debt, there's the opportunity costs of this money and then also government have to tax jobs and businesses which are dead weight taxes which damage the economy in order to subsidize electricity. That's a dumb way of proceeding.

FC: Last question, equalization receiving provinces like Manitoba suffer because outside money has entrenched a dependency on bad policy which is rewarded by more subsidies, a huge welfare trap in other words. How would the LVT model impact this pathology?

FdJ: If the fully implemented idea of economic rent capture or unearned income that accrues to the resources was collected by the Government of Manitoba then it would have ample funds to finance its services without equalization

payments from have-provinces. The problem now is that a large amount of the economic rent that accrues to assets in Manitoba leaves the province and goes to bigger centres. Rent percolates towards hubs such as Toronto, New York and London. If more economic rent was captured by the Manitoba government, not allowing it to escape to other provinces and other countries, then there would be ample revenue for Manitoba to provide services without equalization payments. So it's plugging the leaks of your economy which serves this purpose.