Incentive Problems in Canada's Land Markets: Emphasis on Ontario

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Abstract  The specific issue addressed in this paper is urban encroachment on agricultural lands, and the problems it poses for both analysis and the conservation of the land resource. The purpose of our discussion is two-fold: (1) to identify where and why traditional analytical and regulatory approaches fail to resolve land use conflicts, and (2) to explore ways and means of resolving some of the dilemmas which society faces in making land use decisions. This paper's contribution is in the spirit of "Getting Incentives Right" for the inter-temporal transfer of wealth, as represented in trade-offs between environmental and resource endowments and human and physical capital. Efforts are placed on identifying what the appropriate price, levy, taxes, and grant ratios "ought" to be in order to encourage individuals in the marketplace to act in society's interest. We have also explored ways of efficiently transmitting those incentives through the market mechanism, without unduly relying on bureaucratic methods or suasion. Emphasis is placed on mechanisms that have little scope for preferential access and are subject to public scrutiny; emphasis on such self-disciplining approaches should result in less effort expended on (unproductive) lobbying activities and bureaucratic administration.

Keywords: land use planning, zoning, transferable use rights, traditional benefit-cost analysis.

The current generation does not especially owe its successors a share of this or that particular resource. If it owes anything, it owes...generalised access to a certain standard of living or level of consumption. Whether productive capacity should be transmitted across generations in the form of..."resources"...or capital or technological knowledge is more a matter of efficiency than equity. (Robert Solow)

We do not inherit land and resources from our parents, we borrow them from our children. (Anonymous)
I Introduction

The way a nation uses its resources is crucial to its long-term prosperity and, perhaps, even to its survival. Land is the basic resource for agriculture; without an adequate supply of good quality land in regions with suitable climate, agriculture as we know it would be impossible. Contrary to the perceptions of many people, land suitable for cultivation and crop production makes up only 5% of Canada's total land mass, and only 0.5% are Class 1 soils in areas of good climate (4.2 million hectares); over half of this Class 1 land is in Southern Ontario, where urban encroachment is at its most prevalent. Yet, of all land converted in Ontario, the proportion of Class 1, 2, and 3 has risen from 70% in the mid-1970s to almost 85% at the present. Prime land converted to urban uses is effectively lost to food and other resource-based uses forever.

Most high quality agricultural land in Canada is owned by individuals who, by law, are the stewards of this resource. However, it is in the interest of all Canadians to ensure that land is being looked after wisely, both for ourselves and future generations. As a society, we must ensure that national, provincial and local government policies, programs and practices not only make it possible, but assist the stewards to fulfill this task.

Beginning with Malthus in what might be considered the formative years of the economics profession, economists have made occasional forays into discussions about the environment and the "small planet" syndrome. With some rare exceptions, however, the insights offered have not been remarkable, nor have they resulted in lasting recipes to prevent the wanton depletion of resources. The general tendency appears to be to "assume that we have perfect competition, perfect foresight, costless adjustment etc" . . . and voila . . . whatever happens, happens, and is Pareto Optimal. All too often, economists have found themselves giving credence to the "depletion" side of resource exploitation issues, rather than the "sustainable use" side. Rees (1990) observes that neoclassical economics comes up short when discussing ecological concepts and the depletion or degradation of natural capital, as well as other externalities. Some of his observations are worth repeating.

(a) Price or scarcity-induced substitution may occur too late to permit the recovery of marketed ecological resources that have been over-used.
(b) Substitution does nothing to repair the pollution damage caused by the dissipated by-products of previously depleted resources.
(c) Present profit-oriented market economies do not recognize some critical materials (e.g. the ozone layer) and processes (e.g. photosynthesis) as resources of an irreplaceable sort.
(d) Other resources and commodities for which there are markets (e.g. agricultural products) are dependent on material or processes for which there are none (e.g. soils and soil-building processes).

The last two factors are particularly critical; while market economies can always price the direct inputs to manufacturing, they are silent on the value of critical non-market material resources and primary exosphere processes. Consequently, society at large receives few signals from the marketplace that the very basis of our wealth