

Leasing & Pseudo-Socialism, 83

Type notes; send to Fred

Pseudo-socialism, Oil & Gas Leasing, 1983

A study of defs?

I. What is Socism

II. What is pseudo-Socism?

III. How should we admin. public lands?

I. What is Socialism?

A. A Protean word.

Many use w/ defn.

Those who do have diff. defns.

B. PUB, sort of ... letter w/o spirit. X-subsidy, mainly for rich.

C. NDP came down

Socialized Farming, RR, & Hydes —
but mainly as schemes to enrich owners of spec.
land. Like DWR in Calif.

NDP raised rents on Crown Lands; (shortened terms)
marketed gas exports.

Distribution

B. Socialism $\equiv$ capturing surplus value & dividing
equally. Among individs, not landowners. W/o X-subsidy.
E.g. All social dividend.

E. What is surplus value?

1. Rent, clearly.

2. Return to reproducible K ?

a. Not if can be withdrawn, i.e. if arbitrage prevails. ^{was ~~have~~ to be attracted}

[b. If K is captive, - can't be disarmed or exported - (as in W.W. II?) - can dip into tax.]

b $\frac{1}{2}$. Govt. could create K via tax. But (over)

c. If you have a bidding system, Physiocratic Thy. prevails. i.e. if you deny bidder a return on K , he will bid less for lease.

Thus, rent is max. of surplus value anyway.

Implications for tax policy, profound!

F. Great thing about socializing rent, ~~means~~ ~~is no~~ eliminates trade-off betw. incentives & progressivity.

(Note, this defn. of socialism does not rule out mkt. ec. just need good tax system, or leasing system.)

G. If Govt. already owns land, already have basis for socialism. What you need then is good leasing system.

could hardly do this w. present nat. debt.
What can do is pay off debt

(On PUB we force savgs; but this creates
dist. problem. "Investors" strike back via
large - lot zoning.

1. Another possibility is direct admin. of land. But track record not so good.

Destroyed the surplus value by maladmin.
 a. Nat. Forests. \$100 B asset, neg. cash flow, 1 Bureaucratic aggrandizement; K-int. bias.

One of reasons for big thrust to privatize.
 - why so many ecsts. climbed on this bandwagon.
 Cong. J. Weaver + ec. of Rosenberg, etc.

b. DWR. Same biases: bureaucratic aggrandizement; K-int. bias; service to big land specs.

2. Leasing in priv. mkt. does have a track record. It works, - sort of.

all Hawaii } They reap the 1 owner lease
 Irvine Estate }

Most CBDs.

Much of Bakt.

Most oil + gas on priv. land.

So why can't U.S. do what priv. land-owners do, extract the surplus.

II. What is Pseudo-socialism?

A. James Watt admin'g public lands.
Any lease that gives away public int., by several means all have effect of installing lessee as tho he were owner.

4/82, Coal, Powder R. Basin, Wyo - Mont,
1.6 B Tons @ 3.5¢/ton. 50-yr. lease, loose
dev. reqmts., a few huge cos.

All indy. already has 200 yr. supply under
lease, so no one will bid much.

OCS, 1 B.a. = 10 x Cal to be leased before
next election.

Oil shale, now it's worthless.

B. Pre-Watt, stage was set

Oil firms, 200 m.a. = 2 x Cal.

Many decades ahead of need.

So who will bid now?

1. NPR 4, Alk. drew \$70 m instead
of \$500 m -- 14% of antic. comm.

Fed. rules then screw up Ak. state rules
-- & Ak. is pioneering a better leasing system.

2. Who is buying?

Unripe land is the most closely held asset there is.

C. Buying? Ship of the Tongue? Lease = Purchase?

Hecut of pseudo-socialism, Bonus Bid system. Makes a lease more like a sale.
Automatic renewal until minerals exhausted.

System originated on uplands, priv. land. Was a way big oil cos. dazzled small firms. w. front money, bought their mineral rts. Cos. wrote the rules, had the expertise, wrote rules for their benefit.

When moved onto Fed. & State land, govts. ~~later~~ adopted same system.

Works in Tandem w. tax system. Abandonment of leases.

D. To students of 19th cent. Am. History, still, sound familiar. Cash sales vs. presumption, resid. req. etc. 1820, Cong. abandoned sales on credit - (except to v.r.s w. pol. influence.) S.P. has been our largest owner ever since. ~~But~~ Small guys had ways to fight back, 19th, Local taxes. But how can cities or states tax OCS?

III. How should we do it?

A. Participate

1. Refer profits.
 2. Vary profits, according to what is there, as that ~~that~~ is disclosed
 3. Allow credits for lessee inputs. Raise rates
 4. Leave a bid variable
- Thus exploit Physi's theory of tax incidence.

- { Thus tap rents w/o damaging regul. incentives.
 { Thus eliminate conflict of progressivity + incentives.
5. Limit area leased to only one -- Cheung's Law.

implicit in
 B. Defer sales / until leases are ripe.
 Avoid max. gross (\$ I/O approach?) This also gives a collateral for making credit sales stick.

C. Partic. in Expln.

By drilling (using same contractors)

By checkbook financing + drainage sales

By registering all well logs.

D. Partic. in mktg - for yardstick purposes.
 (New crude oil exchanges may obviate)

E. Any drama? J. Watt is most unpopular figure in Reagan Cab -- as Doug McKay was in Iku, + Albert Fall was in Harding's

Idea

1. If K is not free, rent is surplus value
Gov. as landlord can socialize.

2. ~~Refus., vague. We are~~ Many are careless.
Cap-ism
Socialism.

I define Socm is capturing surplus value, dividing
equally.

3. Trade-off of progressivity + incentives -- a myth.
Most progressive stroke of all is tax rent.

4. B.C. experience. Crown lands, favorable leases.

5. Another myth - free mkt. vs. socialism. Can
co-exist, w. good tax system

6. Uncritical idolatry of cos. of scale, equates soc-m. w.
public o'ship

P. H. B. - I am a practicing socialist.
Go to battle tomorrow to keep my fellow Socialists
from throwing more M down Waterloo

2
7. Direct pub. util. can eliminate surplus value -
Nat. Forests.

Leasing can give it away.

8. a. Coal Cos. have 200 yrs. coal under lease.

4/82, Watt leased them Powder R. Basin, Wyo -
Mont. 1.6 b Tons, 3.5 \$ / ton, 50-yr. lease
Loose dev. rights.

b. OCS. Watt wd. lease all, before next election.
One b. / a. = 10 x Cal.

c. Oil / shale. Sell now, when worth less.

9. Highest conc. of ownership, unripe land.

10. Privatizing means selling free.
Long lease ~~to~~ has much same effect.

11. 95% Hawaii under long lease.
to Bishop, like Irvine, gets 1.

12. Basic solution is partition.

By ~~taxes~~

By sharing revs.

13. ~~Pre-Watt. explosion of oil learning. 200 in a.~~
~~top 50 cos.~~
Many decades ahead. Want's for 4s.

14. ~~Timing~~ issue.

15. ~~Learning~~, confusing physics. Thy.

WESTERN TAX ASSOCIATION

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Meeting location: QUEENSWAY BAY HILTON, Long Beach, California

June 15, 1983

PROGRAM

Morning Session Taxation of Natural Resources

"The Economics of Severance Taxation of Water",
Bruce Billings (Arizona)

"Who Pays the Severance Tax?", Bernard
Weinstein (John Gray Inst., Lamar)

"Taxpayer Destruction of Environmental Amen-
ities", John Baden (Montana State)

"Oil and Gas Leasing: a Study in Pseudo-Social-
ism", Mason Gaffney (U.C. Riverside)

Luncheon

"Emerging Intergovernmental Fiscal Issues", Jared
Hazelton (President, Texas Research League)

Afternoon Session The Public Finances

"The Potential for Rebirth of Fiscal Policy",
Donald Escarraz (Sangamon State)

"Incentive Programs for Inducing Economic
Growth", Lee Norman and C.A. Hofman (Idaho
State)

"Self-Employment and the Incentive of the Pay-
roll Tax", Robert Moore (Occidental)

"Recent Developments in Charitable Giving of
Individuals and Corporations", Richard Lindholm
(Oregon)

"Preserving the Past: Government Incentives for
Historic Restoration", Susan Feigenbaum
(Claremont McKenna)

All Conference papers have been committed. Should you wish to serve as a discussant for either session,
please contact:

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