

Comm. Club, L.V. & Infl. 7-71

Infln & Land.

Intro.

~~Intro~~ Weden asked me to explore. A challenge.

Stad to. Unpted.

I know more about land than infln, but the 2 fit

together nicely.

→ Problem is too much mtl, so will strip along.

1. Background.

100 yrs. ago, quantity thg. Egn. of exch.

Assume you know.

Then Ku. restatements. re-emphasis on fed. fiscal policy. Went to far in rejecting Q. thg., forgot it.

Now Friedman is riding wave of new appen. for Q. of M.

Assume you know all this, go on from there.

2. As value of land - facts

Sources: ERT; ALTB. (Plus)

Farm r.e. "Declining index" - they say. \$200 b.

when last seen. ~~&~~ A adds 50% to farm inc. ydy.

(Wouldn't have to rise much to add to inc. on which farms pay taxes)

~~Minerals~~ ^{Minerals} small farms report taxable inc.

Minerals. 20% U.S. under lease! 1% producing. Unused reserves apprec. by def. of 'green'. Reserves, rent not resid. -- owner is holding for more. E.g. U.Pac. (over) Timber. Land of 0 value now as hi as \$100/a. Ts. even higher?

Urban. 1951-61, Manual ext. urban r.e. A from 200 b to 1400 b. & land share rose. (A overlooked new acres inside SMSAs) Productivity of land fell, i.e.

more required to do same job, due to sprawl. Constant labor.

productivity rose, so index of constn. costs was had to be revised.

Share of land now near 50%, cities.

Wn. D.C.

Mt. W.

Cal. - East of San

Other land.

Recr. Everywhere, hillbilly country, fabulous As. You know about Cal. Don't think it's unusual. Wis., Vt., Va., Mo., Fla., Ariz. You buy a tax free service flow. Wn. r.e. ~~2~~ - measure by alt. costs, e.g. CWP Power drops. A in value as alt. sources grow dearer.

Misc. Can go on & on.

Indication of value of good minerals is cost incurred to find new ones.

Deeper expln. in seas, etc., high cost. Mil. protn. of mineral outputs,
even higher cost. "Cost-push of mineral sprawl".

3. Share of rent in c.v.l.

~~Share~~ or service flow (tax free)

Rent: probably rose faster than l.v., b.c. rise of i .

$a = i \cdot V$.

Temper. b.c. Δ expectations. But farm studies show Δ in landlord's share.

Urban apts, offices. ~~+PT~~. IREM survey shows $\frac{\text{op. costs}}{\text{collections}}$ rise to .60 for bldgs. over 50 yrs. old. The one I live in I don't see much of those opp. costs. Paying for locn.

Farm. Reiss on Champagne Cty. Landlord's share is half.

oil. Half is rent. al Kalu. Plug ERT.

Timber. L.V. = regen. cost, say \$50 @, not unusual.

Detail unimportant. Is a big chunk.

4. Cost. push infl. of l.v.

L.v. "residual"? Just passive? Try telling your landlord that.
Unfortunate. (Alcindoro)
That wd. assume no h.o. power.

a. Tax status

Virtual exemption of l.v. Δ from inc. tax.

So mix as much land into yr. opn. as possible. Or just hold, idle.

also prop. tax.

b. Zonig. Forced land cons.

With land, Δ demand is reduced supply, so hard to tell diff.

But rent comes first. If you don't pay you lose bldg, or lease. It's
due w. the passage of time.

5. Cost-push of urban sprawl (H. Sch.)

Adds to cost of everything.

P.w.;

Utilities

Postal Rates

Deliveries.

And not just in sprawl areas. "Resulting Poverty
is Shared by All"

Cost of retailing - duplication, parking, advertising,

Reduced comp. Loss of Synergism

Synergism. Sharing common costs; pooling risks & by load
factors; wide markets, specialization; spreading info; fostering innovation;
sharpening comp.; widening choice; social contacts.

The Yellow Pages.

6. L.v. & influ. of corp. shares.

L.v. become intangible by virtue of incorp?

a. Weyerhaeuser, 3.8 m.a.
+ 1.8

5.6 m.a.

Includes 92,000 a., e. end Seattle

b. Castle & Cooke, \$300 m. of land in Ha.
162,000 acres @ \$2,000. Underused.

u. 7., Anaconda, Rails, (25 m.a.)

Oil, steel, coal cos -- mineral land, 324,000 gas sta., \$16 b.

5+. Joe Paper (Ed Bull, 1 m. acres, \$1 b)

Chrysler, Westinghouse, IT&T, GE, M&M, etc.

Swift (M&L). Stockyards.

Corp. farms in Cal.

Retail chains.

Lestie Sult

7. L.v. as base of credit.

Infln. due to expanding d.d.s.

Historically, most prominent & unstable cause has been
lending on land. Wildcat banks.

F.R. was supposed to stop. Then '29. Banking collapse
was a v.e. collapse.

Now, new safeguards. (But a corresponding lack of awareness.

De Frenery has shown how fragile some safeguards are.)

It's hard to get away from effect of l.v. on money

Basis of money is loans. Basis of loans is collateral.

Big element in collateral is ~~always~~ l.v. — even if at bottom

of pile of paper. Must be, bcs. land is so large a share of assets.
Every cycle of boom & bust marked by growth of l.v. share in collateral.

Corp. bonds, trade credit.

Mortgages, farm, urban, ^{etc.} utility (they have gas under contract, etc.)
Utilities & ~~mining~~ ^{mining}
Munici.

Today, tax system encourages hoarding land value.

Infln. & leverage.

Deduct int.

Take cash out of appraised land, tax free

So don't think the Wildcat Banking effect is
dead. Just more indirect. A l.v. is being monetized.

Thus, a circular element in A l.v. Unlike cost push
of ~~the~~ wages. Can't monetize labor. But A l.v. feeds on
itself.

Thus there is a circular element in cost push Δ l.v. ~~Other~~
cf. labor, no automatic ΔM . But Δ l.v., automatically ΔM
bes. Δ bank loans. Feeds on itself.

8. ~~1/2~~ L.v. as director of cap. from consumers.

Security breeds substm. Scarce land causes expansion.
Expansion requires p.w. & land dev. Land dev. & p.w.
generate inc. w/o cons. goods. Infl.

[1 include (large) share of mil. spending as land dev.

a. To secure land overseas

b. To hold up l.v. in Junction City, Ks.

Fayetteville, N.C., Phoenix City, Ala., ^{metros.} Wash., etc. etc.

Seattle, Burbank,]

Some e.g. CVP, CWP. Entire farm program. Immediate gratification, deferred returns. M.D. oil policy. Spread around max. of titillating future hopes, but min. current output. By private.

Introduce

Concept of velocity of capl. Like V of M . Cap. of low V

generate inc. w/o cons. goods, ^{in S.S.} In terms of $MV = PT$, too few T . ^{& long run}

Fail to meet nat. payroll in real terms. Money just drives up prices.

9.8. L.v. & unemployment.

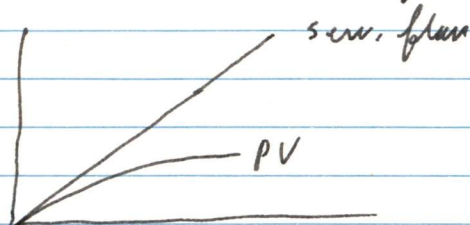
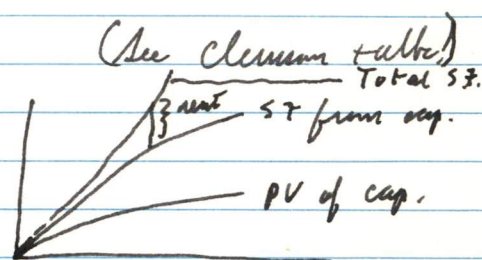
Most programs are landowners' programs.

They force sub. of land for labor. (to demand for land)

e.g. age of urban ^{bdgs.} housing. Forced to last too

long by prop. tax; inc. tax.

Result: A share of land in provision of housing services.



Even on site labor is down to 20% or so of cost. But even if it were all labor, most payments are rent, int, ~~taxes~~

(& taxes, which are pub. share of rent & int.)

Staggs. Bld. one home yely., cost = PV. From Σ , get SF

This is one of many possible e.g.s. I won't take time to develop. (But longer house life economizes on utls - answer that.)

This causes unempl. i.e., the things we do to hold up L.v. cause unempl.

Then we rely ^{society} on LM to fight unempl. And was - the Connally Trade-off

We are saying,

- Labor must be empl. w. hi compl. of land
- All labor must be empl.

So we use much land; & keep hav'g to inflate. And instead of

producing short lived goods whose value is mostly labor,
we divert much labor into land dev., where:

- a. P.W. are long lived
 - b. Payoffs are further deferred by need for comply. capt.
- as e.g. CWP requires orchards.

(10.) ~~10.~~ A.L.V. & cons.

A.L.V. is current inc. Reduces sav'g.

A. L.V. & lig. Reduces need for c.b.

Solution.

New set of instus, sub labor for land.

(11.) L.V. & fed. deficits.

Financing fed. deficits is prime source of inflation.

Why deficits?

a. Big reason, land paying no fed. taxes. Inc. tax is a payroll tax.

b. And fed. assuming more & more local fun, bcs.
land paying no local taxes.

c. And much fed. & local spending designed to A.L.V.

e.g. farm program; CWP;

Land & inflation.

Talk to Comm. Club

1. Cost push infln.

Land a big part of it. Rising disprop. for some time. Meisel, (Gutlich?), Douglas Comm.

2. Relative productivity.

Dacey, const. cost indices overstate rise.

Less const. labor. (Coleman poverty)

Productivity of land falling. Enig.

More land needed for public uses, too. — 5 acres to do the work of one.

More noise, call'g for more setbacks. Believe me, cheaper to control noise. & you can't escape anyway. Follows you everywhere. Snowmobiles

3. Land & credit.

L.v., basis of bank expansion.

History, '29-32, ~~the~~ bank's collapse was
a r.e. collapse. Fisher, Scherman.

Now -

S & Ls.

Thin equity.

How much comm. loans on r.e.?

To avoid r.e. collapse, keep pumping in M .

4. Land dev. & cap. structure.

Freezing up capt. Generate inc. w/ ^{ripe} ~~fixed~~ goods.

Slow turnover, few transactions, M bids up ^{ripe} ~~fixed~~ goods.

5. Land & taxes.

Infln. comes in part from ΔM when
^{U.S.} ~~Fed.~~ runs deficit. Bcs. can't collect taxes.

Bcs. land inc. largely tax exempt.

(Which also adds to l.v.)

6. L.v. mntce. & govt. programs.

e.g. agric. Infln. of food & fiber
prices by govt. — cartel whose board of directors
is U.S. Corp. — — or Cal. Legislat.

Why. To keep up farm wage rates? Assn.
Farmers not orgd. for that purpose.

To maintain L.v.

e.g. J. F. Boswell. Largest receiver of USDA
payments. Probly largest benef. of Pine Flat, also helped
by Isabella, Terminus, & Probly largest
benef. of FRP

2. Ag value of land - facts

3. Impact of rent ^{l.v.} in c.o.l. ... facts. LPPT; ERT

4. ~~Cost push infln. of l.v. -- tax privileges, etc.~~
~~Forced cons.~~

5. Cost push of urban sprawl.

5. L.v. & infln. of corp. share values

6. L.v. as base of credit.

a. Non-monetized, like S&L

b. Monetized,

i. Mortgages held by comm. banks

Historical record makes this prime. Maybe less important now.

ii. Trade & prodn. credit secured de facto by land.

iii. Corp. bonds.

iv. Mun. bonds

Borrowing on L.v. is more popular today, b/c. can then take cash out tax free.

Willingness to lend is a fun. of collateral security.

L.v. is collateral. But an unstable, unreliable base.

Source: Davis paper; Urban expan.

The Fed widens its portfolio

Institutions, if they last long, usually master the knack of making timely concessions to change. This week the Federal Reserve gave in to increasingly persistent demands from Congress that it start buying federal agency debt as part of its open market operations. In doing so, the central bank has also given itself more room in which to maneuver monetary policy.

The Fed implements policy decisions through its dealings in the market—buying government securities when it wants to feed money into the financial system and selling them when it wants to sop money up. Where it used to deal only in Treasury obligations, it now will deal in obligations of various federal agencies. What makes congressmen happy is that the list of agencies includes two that supply money to the mortgage market: the Federal Home Loan Bank Board and the Federal National Mortgage Assn.

Welcome move. Political friends of the housing industry had long urged the Fed to buy issues of the housing agencies. That would make their money-raising task relatively easier whenever the Fed put the squeeze on the rest of the financial structure.

Fed Chairman Arthur F. Burns has a great aversion to anything that might cast the central bank in the highly political role of an allocator of credit among different sectors of the economy. The Fed did emphasize that it was putting a \$3.2-billion ceiling on its total buying of agency issues and added that there was no intention "to direct support to individual sectors." Still, half the government agency issues eligible for purchase by the Fed will come from the housing agencies.

Of course, there is also something to be said for the Fed's own explanation for its move—that it would "widen the base of system open market operations." Agency debt, though a rising share of total federal debt, has remained untouched by the Fed's New York trading desk.

Fed officials brushed aside Wall Street's hopes that its dealings in agency debt would be vast enough to ease strains on long-term interest rates on any continuing basis. They did, however, envisage the desk buying "\$200-million to \$300-million" of long-term Treasury and agency issues at critical junctures when otherwise long rates "might have to go to a whole new and higher trading level."



The IRS impounded 23 of Blue & White's 29 buses.

URBAN AFFAIRS

The wayward ways of Watts bus lines

The most pressing problem facing residents of Los Angeles' 60-mi.-wide black ghetto is how to get to where the jobs are. In the aftermath of the 1965 riots, there were highly publicized plans to bring industry into the economically stagnant area, but these schemes have largely failed (BW—Aug. 14). Since only 15% of Watts families

'Blue & White created a situation that forced SCRTD to take action'

own cars, the obvious answer is public transportation. A black-owned bus company has tried for three years to fill the void, but this week it, too, appeared destined for failure.

The Blue & White Bus Co. of Watts, set up in 1968 by the National Economic Growth & Reconstruction Organization (NEGRO), has been beset by financial crises. Recently, the state Public Utilities Commission revoked Blue & White's operating license because it did not carry liability insurance or provide adequate service. The Internal Revenue Service impounded 23 of its 29 buses when the line failed to deposit \$26,000 in taxes deducted from employee's salaries.

All this came in the wake of a work stoppage in July, after drivers, who are members of the United Transportation Union, found that banks would not cash their paychecks because Blue & White had insufficient funds. The company recruited nonunion drivers, but service was cut by an estimated 40%.

Takeover. Ironically, Blue & White's failure may result in better service for

Watts—at least that is what public authorities claim. Its routes have been taken over by the Southern California Rapid Transit District (SCRTD), which provides 79% of the bus service in Los Angeles County.

In 1965 a state commission investigating the cause of the Watts riots noted that the community was serviced by four bus companies—three public, including SCRTD, and one private—and that residents often had to ride two or more buses and were not given free transfers. The commission recommended that the SCRTD acquire the private line. But the district, complaining that Los Angeles does not subsidize public transportation, said it did not have sufficient funds. The line was eventually taken over by Blue & White.

In 1970 the SCRTD received a temporary subsidy and made an unsuccessful bid for Blue & White. Its sudden interest spawned complaints that it was trying to force the black-owned company out of business. Jack R. Gilstrap, general manager of the SCRTD, denies any such intent, saying: "We would love to have seen Blue & White service the community. It would simply have taken a losing operation off our hands."

Blue & White is credited for at least drawing attention to the community's transportation troubles. As Robert Kemp, executive director of the Interracial Council for Business Opportunity, puts it: "Blue & White created the kind of competitive situation that forced the SCRTD to do something."

But the black community wonders if once Blue & White fades away, the SCRTD will lapse into token service. ■

Commonwealth to buy another 290,000 shares at \$17.50 each. Another 550,000 shares would be sold at \$5 each to Nicastro, key executives, and some of the secured creditors. An additional 40,000 shares would go at \$1 apiece to others involved in the reorganization, including New York investment bankers Allen & Co.

Nicastro, who was president of Seeburg when it was acquired by Commonwealth in 1968, would become chairman and chief executive officer of Seeburg Industries. And he says he might move Seeburg's headquarters from Chicago to New York.

If Seeburg does emerge in its new form, it would have net assets of \$25.6-million, plus about \$10-million worth of intangibles, such as goodwill, trade-

The banks have accepted that Seeburg will go, but the payment terms are not settled

marks, and copyrights. Nicastro says the Seeburg Corp. subsidiary is now profitable: In the first half of 1971, it earned \$3.3-million on sales of \$53-million, figures which were included in Commonwealth's over-all balance sheet, which showed a \$1.6-million loss on sales of \$54.4-million.

Acceptance of the plan hinges on Commonwealth's creditors, as well as on the Securities & Exchange Commission. Franklin and Security Pacific confirm Nicastro's assertion that the banks have accepted the idea of spinning off Seeburg. But the two banks say discussions are still taking place over the exact terms of payment of the \$11.5-million, and Franklin and Nicastro say that the Bank of California appears likely to make some new proposals.

Foreign debts. Three foreign banks—Banque Rothschild in Paris, and William Brandt's & Sons and Guinness Mahon & Co. in London—and IOS, Ltd., are owed some \$24-million by Commonwealth, but Nicastro says they have agreed to accept 500,000 shares of Seeburg Industries in settlement. They will also get 40,000 shares at \$1 each and seven-year warrants for another 100,000 shares at \$17.50. Holders of Commonwealth's \$84-million worth of debentures would be offered various amounts of stock and warrants.

If all these groups agree to the plan, it will be put before Commonwealth's shareholders at a special meeting before yearend. This would also serve as the company's annual meeting, which has not been held in any year since 1968. Nicastro is under no illusions about what he is offering, but he sees it as the creditors' best hope. "Nobody's delighted to accept any deal we propose," he says. "It's only the realization that the alternatives are worse." ■

HOUSING

The fight on fraud in FHA programs

Lower-income families in at least four cities—Washington, Detroit, Seattle, and Philadelphia—are complaining that the homes they bought through Federal Housing Administration programs are substandard. They are charging fraud and are taking their cases to court. Concurrently, criminal cases are being brought by the Justice Dept., and a nationwide investigation by the Housing & Urban Development Dept is under way.

Most of the problems have occurred in the so-called Section 235 program, which has proven a boon to home builders since it was started in 1969. For example, it gives the buyer a monthly subsidy of \$70 to \$90, enabling a family earning only \$5,000 to \$8,000 a year to buy a house with just \$200 down and monthly payments as low as \$75.

According to Representative Wright Patman (D-Tex.), grand juries have already indicted over a dozen people, and "at least one FHA appraiser has been indicted for bribery."

Patman got Congress to provide relief for some bilked purchasers last year. But the Legal Aid Society filed a class action suit last week in U. S. District Court in Washington, charging that eight homeowners had not been able to get a dime from FHA.

The method. In Philadelphia, for example, a speculator typically bought a rundown house, often at a sheriff's sale for as little as \$500, papered over the obvious cracks, put paint on the other walls, and applied for an FHA-approved mortgage of, perhaps, \$5,500. If the speculator got the FHA appraiser, usually a private real estate broker who works on a fee basis, to accept his inflated valuation of the house, the FHA agreed to insure, and in some cases subsidize, the mortgage. If the fee appraiser cited flaws in the house, the speculator got a tradesman to certify that the flaws were corrected. It was in appraisal and certification that the programs broke down.

When the broker sold the house, usually to a poor black or Puerto Rican, he told him it is "FHA approved." Says one U. S. attorney: "It looks like the programs are being abused in every big city. The government wanted to get poor people into homes and they made it too easy."

The Philadelphia suit was brought by Community Legal Services. The action seeks government money to repair houses purchased under the mortgage

insurance program so that they meet housing code standards.

George Gould, a CLS lawyer, estimates that his suit could cost the government at least \$20-million if, as he thinks, there are 10,000 substandard houses in Philadelphia alone that have been "FHA approved" in the last three years. Since 1967, some 23,000 houses have been sold in the area under the programs. A similar suit, brought in Seattle and dismissed last spring, is now before the U. S. Court of Appeals, and still another suit is expected to be filed soon in Washington.

Grand jury. Patman triggered all this a year ago with an investigation of sales of existing houses in Philadelphia and Washington. But a HUD investigation of new houses revealed that builders

One realtor was indicted on 39 counts of submitting false statements to the FHA

have also gotten FHA insurance for poor-quality houses under the 235 program. This program accounted for 117,000 housing starts last year and will back an estimated 200,000 more this year.

Patman says HUD sampled new 235 houses and found "that 10.9% had significant deficiencies that were potential hazards to . . . health and safety, and an additional 14.8% had . . . poor workmanship or materials."

Last week, a Philadelphia grand jury, which since May has been questioning realtors, appraisers, contractors, mortgage firms, and government officials, handed down three indictments. Eventually there may be as many as 20 indictments.

Realtor Charles C. Hibbs and two construction tradesmen were indicted on 39 counts of submitting false statements on plumbing, electrical systems, and roofs to the FHA to get mortgage insurance or subsidies on 13 houses in one block on the edge of the North Philadelphia ghetto. "We are concerned with 800 or 1,000 properties," says U. S. Attorney Louis C. Bechtle.

In Detroit, U. S. Attorney Ralph B. Guy and Wayne County Prosecutor William Calahan are investigating criminal violations in FHA-insured deals. Guy says as many as 100 properties may be involved and that there has been "one hell of a flap." Meanwhile, suits are pending in the state and city courts against 13 real estate and investment firms that have been charged by the Urban Law Clinic of the University of Detroit with selling 22 substandard houses to lower-income families under one of the FHA programs. And the CLS's Gould reports that since he filed his suit, he has had inquiries from Legal Aid lawyers in Cincinnati, St. Louis, and Kansas City. ■