Russland

Shelving e.f. is not as easy as saying it. Operator study pad expenses; ji. ptnr. must monitor. Padded reduction of corp. mgrs. are case in pt.

Shelving by L/B ratio requires annual revaluation of land, & amb. depreciation of bldg.

State can share K cost by helping finance bldg. charging mkt. i.r. Can help up front, or by forgoing rent.

Can take a diminishing share of gross.[2] Comm. lease takes rising share of gross — evidently on premise a high demand causes bulge in gross, & this is due to site? It's more than hi demand, is also good supply, also affects ~~the~~ gross.

(If landlord cd. help pay for raw mtls and have claim on higher share of gross. Moral hazard is main problem.)

Net proceeds tax used w. raw mtls — where no raw mtrl inputs are bought. [Even there natural gas is bought for oil extraction, etc.] ~~b) Field gas is used to extract more of itself.~~ So it's easier to monitor expenditures; also, there is less scope to

sub. deductible - can write for non-deductible mgmt. input.

Share of gross, coupled w. fixed level rent ax

Pvt. leasing terms are not totally relevant.
✓ State has a device for sharing risk that is not available to pvt. parties: land value assmt.

L.V. assmt. actually shares less risk than rent assmt., however. L.V. is fairly unresponsive to s.v. changes. (It also responds to future expns. unrelated to current rent.)

Depends on the kind of indy., length of inv. cycles, how volatile is rent.

Farm rent varies a lot w. wx., prices, blight.

Forest rent extends over 20 - 80 yr. cycles, must be annualized.

Urban rent extends over long bldg. cycles, but also varies w. current demand, + o+m costs, i4s. rates.

Mineral rent varies w. demand, & w. what is found.

Poss: How shd. rent vary when buyer gets stuck w. environmental liability, toxic waste?

Goal: a charge that varies w. external forces, but not w. individ. response.

Insurance is an analogy. You pay a level amt in pref. to large stochastic amt. This makes you careless of fires. (So ins. co. rates you, or yr. fire dept., offsets this.)

Ins. co. thus equalizes all insureds, regardless of their ≠ individ. behavior. Pools all risks. This is more socialistic than anything govt. does; but is accepted by bus. Is highly participative on downside; not on upside.

This then is what people want: protection from loss. They'll pay for it, + cover losses of others.

They'll also gamble — some will. Again, they accept a small level pmt. to ~~avoid~~ get chance of big win.

LVT is that small level pmt. To make it more acceptable, add some ins. feature, protect vs. disaster, share losses. How?

a. Gear to current inbtdn. rent levels. The gear ratio shd. recognize leverage of fixed bldg. costs on ground rents. [Reserve treat's rent as resid.

it is a resid. compositely, but not individually.]

b. Offer a kind of ins. as an option. If bldg. burns, may abate rent if occupant has pd. a premium

a, (again). This offers hi degree of prot. if ~~it~~ ~~falls~~ mkt. falls, & B/L ratio is hi.

Danger is, it ~~this~~ may have a/f effect, lead K into ~~this~~ too-risky commitments on unpd. land.

(There is an automatic af effect on all intensive margins. As of low quality are insured by rentable supra-margins. Couple this w. ecs. of simultaneity in bldg. — may be a bias to over dev. intensive margin!) (Taxing rent stops this!)

Lending to builders — logical place for pension funds. Cal PERS loaned to Drexel, which went bankrupt.

---

a, (again), af eff. will not apply to individ., but might to whole wards or communities. To prevent this have part of tax go to support local comm. Can't abate that part w/o starving local gov.

c. Locnl. obs. Big rise of grad. rent: loss of bldg. value.

Give owner up to 10 yrs to consume the K before raising ~~rent~~ rentals, ~~based~~ if ∆ rentals based on incompatible use.

Franchises — subject to P = MC

Raw mtrls.

2. Landowner who improves land with fixed capital shall be allowed a 4% (or other low figure) return on his undepreciated base, plus a capital consumption allowance, before there is any tax.

3. Landowner who puts in his own labor or management shall be allowed some standard return for that. This is a tough one, frankly, and a weak spot. It is not a problem with corporations, where managers are salaried. It is a problem with individual entrepreneurs -- more thinking needed.

4. Capital consumption allowance may be based on life shorter than economic life (thus making state share in financing the capital, by deferring its ground rent).

Lessee will not gain if allowance soaks up more than the ground rent in any year. This sets one ceiling on speed of write-off.

Lessee will gain if he can reinvest the saved tax at more than 4%, the floor rate virtually guaranteed on the capital base (analogous to a utility rate base).

5. After K base is written off it may never be written off again, e.g. by a buyer. Any gain on sale is presumed to be land value, non-depreciable. All cash flow after full write-off is ground rent, fully taxable.

6. Cash flows above 4% of capital base (KB) are taxed at graduated rate: 10% on 4-6%; 20% on 6-8%; 30% on 8-10%; and so on up to 90% on everything over 20%. The premise is that returns higher than a low % of invested capital are likely to be mostly ground rent. Such returns received by several lessees or owners of comparable land are a signal to raise the fixed cash ground rent.

7. Guaranteed return on capital poses danger of overimprovement (Averch-Johnson effect). This is precluded by: i) keeping the guaranteed return low; ii) Allowing no loss offset; iii) The quadrennial revaluation of ground rent.

The last, the frequent revaluation, would frighten some investors away, fearing the state would overvalue the rent and confiscate their capital. Any AJ effect would tend to countervail that effect.

8. For further protection against AJ effect, the state would secure administrative control over enterprises in proportion to its share of the capital invested. To avoid this, enterprises would avoid fast write-off.

9. Nightmare to avoid: investor sinks K with MROR of 0%, but gains 4% floor return on it by eating into rent. Also, investor writes off fast before figuring his return. This last is what is precluded in #8.

10. Cash flow is to be divided three ways: rent, return on K, and return of K. Normally, rent is the prior claimant. Effort is to raise it as much and as early as possible to a fixed cash amount.

Net proceeds tax is an adjustment to stochastic conditions where rent is unknown ex ante, and unknown uncertainties must be shared.

It is not good to guarantee a fixed return to K. That makes it a prior claimant, with rent subordinate. With net proceeds approach, cash flow is divided in proportion to presumed contributions. Land value is unknown, is the problem.

Last claimant is capital recovery. Rent first, interest next, K consumption last. Entrepreneur's reward for good results, then, is fast recovery of K, rather than high return over long period. State's gain from allowing this is to get progressively higher share of cash flow as K base falls. It finally gets all of it. This then becomes a measure of rent.

The next generation of improvements is made when they can generate enough rent above cost to compete with rents from old K in place.

With net proceeds approach, rent and interest are co-claimants. Land value must be estimated at time K is sunk, to determine the proportions. (If land claims too little, result is not higher return to K, which is stipulated; but faster recovery, with extinction of K's claim.)

11. Landowners subject to heavy debts will still identify land taxes as cause of their troubles, and seek tax concessions rather than debt concessions.

Or, if they have bought land from government, they will seek forgiveness of pmts to govt, while paying banks. USBR experience.

Solutions:

a. A land tax is not "fixed", it is participative in part. If prices of crops fall, tax should fall. And if prices rise, tax should rise. Avoid using "fixed". "<u>Flexible rentax</u>" is better.

b. Paying debt is preferred by owners because they store up savings that way, and avoid capitalizing interest.

To avoid this bias, landowners might be offered some reward for paying rent over the years. Something like a pension fund. Participation could fortify this. The state could build up an equity in capital by forgoing rent until it owned the building; then the owner could pay back until he owned the building.

Once he owned the building, the user could build up a temporary equity in land by overpaying rent. This equity would be extinguished periodically by exchanging it for capital. That is, the state would pay him cash for it, which he could then use to finance a new building on another site. Or it would pay him interest, or an annuity.

This would provide a convenient way to store up savings, with minimal risk and other transactions costs.

by participating, state shall take declining share as more K is applied, by equal brackets.
This table for life of K = 80 yrs.

K/L	State share of cf.		L/L+K
	Mgrd	Curve	
.1	.80	.80	
.2	.65		
.3	.55		
.4	.48		
.5	.43		
1.0	.30	.50	.50
2.0		.33	.33

Bidder puts value on land.

He then gets share of c.f. = $\frac{K}{K+L}$

He must divide his share btw. KC + Ki.
States' share is $i\left(\frac{L}{L+K}\right)$

Suppose c.f. is $\bar{K}i$

a. Owner ~~allocates~~ selects $\bar{K}i$ i. This maintains $\bar{K}i$ K, but gives more to $\bar{K}i$

b. Owner selects lower i. This lowers $\bar{K}i$, but lowers K.

$$\text{Pvt. share} = \left[\frac{K}{K+L}\right]\frac{i}{1-I^{-n}}$$

Pvt. gets $K\frac{i}{1-I^{-n}}$ (to recam K)

Pub. gets Li

i is IRR

$$\text{Ratio of } \frac{\text{pub}}{\text{pvt.}} = \frac{Li}{K\frac{i}{1-I^{-1}}} = \frac{L}{K}\left(1-I^{-n}\right)$$

As c.f. goes higher, either:

a) i rises raising $(1-\bar{I}^{-\eta})$ + raising pub. share

b) K falls, same effect.

Thus pub. participates, w/o guarantees (R.R.

Nic's Outline for USSR

1. LVT
2. End of privilege
3. Free trade
4. Currency Reform
5. P = MC
6. Int. Externalities
7. "Ethic of no political exploitation" of minorities
8. Secession allowable.

~~Send bar, to Steve~~

USSR

1. Land tenure exists now. It is just that the state owns it.

Transferring to pvt. hands requires:

- Subdividing; surveying
- Recording titles. Record public servitudes too.
- Bidding

2. Sell for low price, subject to:

a. Stipulated initial ground rent

b. Share of realized net proceeds, after 10% on K, and depreca.

c. Quinquennial revaluation of fixed rent based on comparables.

(b) + (c) offset ea. other. (b) poses danger of subsidizing K; (c) poses danger of confiscating K.

~~Top~~

Together (b) + (c) raise consciousness to diff. of land + K.

d. Sales occur thru escrow only. All prots. recorded. All terms recorded. No other terms enforceable. Violations penalized. Confiscation is normal penalty.

Sale of depred. K base is tax free!

Premium above that is land gain. Taxed at high rate, less than 100%.

2 b. (resumed)

After allowing a fixed return on K, tax away higher %'s on a progressive scale. The prog. rate is applied to ~~the~~ ea. site, not ea. indiv.

E.g. allow 4% w/o tax. Take bigger shares as you go up.

% of K base	Tax rate
0 - 4%	0
4 - 6%	10%
6 - 8	20
8 - 10	30
10 - 12	40
20 - 22	40
> 22	90

Owner who depreciates. fast loses
a. Basis for tax free inc.
b. Resale value
c. Collateral value. No loans enforceable for more than basis. Land not pledgeable.

3. Lenders.
a. State claims prior to pvt. loans
b. Lender may take K.
c. If takes fixed K, takes land, w. all its obligations. May resell immediately, subordinate to gains & tax.

Where returns are uncertain:

1. Share returns as common % of
   a. LV, as determined by high bid
   b. K, ~~for~~
      Audited out lays. less CKCA (cum. K cons. allowance)

2. Everything above that goes as K recov, — lowering basis.
   after K recovered, ct is all rent.

3. Thus, L.V. is the bid value, but is not pd. up front.

4. Alternative.
   Pay rent based on bid, over given no. of yrs.
   (Bidders might choose no. of yrs — winner is one w. highest annual equiv.)

~~Ideal is fixed cash tax, adjusted annually, pd. monthly~~
   a. Precludes stalling
   b. Subordinates other claims
   c. Inhibits engrossment
   d. No usual distinc.
   e. Least record-keeping

Disadvantage:

a. Throws all risk on owner: sales price, wx, input cost, etc.

b. Penalizes owner for discovering new virtues in land – a higher use; minerals.

c. In pioneer situations, presumes advance knowledge that isn't there: of mkt. values, & demand & supply conditions.

d. May dissuade K improvements fixed to land among a people ~~that~~ conditioned by life under a confiscatory govt., unsure of what new assrs. will do.

e. Lenders will be more nervous. They are used to using land as collateral.

(Needed: record of experience of lenders in Irvine, Honolulu, etc., where land is separately owned. Note also major oil cos. operate on leased land, get credit. Reichman pledges lease, not titles. Etc.)

e. Generates no info. – state doesn't see the books.

f. May result in lower returns to state bcs. operators are willing to bid less in a fixed rent than a risk-share participation.

Dean Miszynski

Bob Pascall

Greg Erickson

Low-equity 80s
Crazy
Deregulated 80s
Acquisitive
Hatable
Graceless
Raging
Levitating
Agglomerating
Great
Taking
The Retrograde Decade
Profligate
From Watergate to Profligate

Soviets Propose Mixed Economy, Private Property

16 Feb 90

By MICHAEL PARKS
TIMES STAFF WRITER

MOSCOW—The Soviet government, proposing a major change in the country's socialist system, presented legislation Thursday that would end the state's monopoly ownership of all means of production and thus lay the basis for a mixed economy in the future.

Leonid I. Abalkin, the deputy prime minister for economic policy, described the legislation as the foundation for broad reforms of the Soviet economy, introducing much-needed competition through diversified ownership and bringing market forces into what has been a centrally managed economy.

The legislation is aimed primarily at enabling enterprises owned by local governments, by workers and, in some cases, by individuals to compete with those owned by the state, Abalkin told the Supreme Soviet, the country's Parliament.

"The most important thing is to give the same legal basis to all forms of property, including that of the individual," Abalkin said. "This is a great step forward. . . . This law has colossal importance."

The bill looks forward to the privatization of many state enterprises through sale to their work-

Please see SOVIET, A18

Snow and ice cut a [redacted] ac
electricity. Above, p[redacted] ns

Hospital Patients U
Tested for AIDS, St

Many hospitals are secretly
AIDS, sometimes in violati
study of 500 hospitals concl
Lewis of UCLA, an author
significant proportion of
testing policies that violate pa

Barry Indicted on D

Washington, D.C., Mayor
indicted on five misdemeanor
charges of cocaine possession
and three felony counts of
lying to a grand jury about
his drug involvement. Barry,
undergoing treatment at a
Florida alcohol and drug cen-
ter, accused the Justice De-
partment of staging a "politi-
cal lynching" and said he
would not resign. **A5** . . . Ba
Florida, but he is still running

Asian-American to H
UC Berkeley Campus

Chang-Lin Tien was named a
chancellor at UC Berkeley, be
first Asian-American to he
campus. Tien, 54, now second
mand at UC Irvine, will take o
Asian-Americans say the appo
especially significant since UC
has been investigated for possi
sion bias against Asians. **A1**

SOVIET: Proposal a Basis for Mixed Economy

Continued from A1

ers or to cooperatives or the leasing of their assets to entrepreneurs willing to take over money-losers in the belief that they can be made profitable through better management.

It also would give foreign companies setting up factories here the same rights as Soviet enterprises in the hope of attracting Western investment.

And it would permit, for the first time in more than 60 years, the private ownership of small service firms and capital goods such as farm equipment and professional tools, although initially only in limited forms.

The bill, as presented after months of discussion and drafting, would "recognize, admit and protect the ownership by citizens of the means of production," Abalkin said, and thus abandon the long-held Marxist principle of public ownership of all enterprises and other means of production.

So radical is this departure from the socialism developed here in both theory and practice since the Bolshevik Revolution in 1917 that the legislation immediately ran into a storm of criticism from members of the Supreme Soviet, who saw it as a return to capitalism—although its principles were endorsed by the Communist Party's Central Committee in the platform it adopted last week.

"This is nothing other than the legalization of private property," one deputy, Leonid I. Sukhov, a taxi driver from the Ukrainian city of Kharkov, said, using the phrase that is synonymous here with capitalism in its most exploitative forms.

"Under the present conditions, I will be voting against this bill. . . . I believe, in fact, that the bill should be submitted to all the people in a national referendum. We have to ask the people. The people know better than these academicians what we should do."

Vavil P. Nosov, a machine operator from Komi in northern Russia, said the bill would allow the many millionaires in the Soviet Union's illegal "shadow economy" to make even larger profits by putting their money into legitimate businesses and taking them over.

Collective farmers and rural enterprises would be particularly vulnerable, Nosov said, if this bill were followed by other legislation permitting the buying and selling of land. The large amount of money that the "dealers of the cities' shadow economy" could pay would tempt rural residents who were both poorer and less sophisticated, Nosov argued.

Other deputies expressed concern about the ownership of natural resources, including the water from the mighty Siberian river system. But they were told that these issues will be addressed in companion legislation on the ownership and use of land and natural resources and on the new relationship to be worked out between the central government and the constituent republics.

The real objection to the legislation, however, is ideological. Decades of Marxism have left most people with what one deputy called "an allergy" when there is a reference to "private property."

Karl Marx and Friedrich Engels, as the ideological founders of socialism, had gone as far in their criticism of capitalism as to sum up their theory of communism in a single phrase—"the abolition of private property."

"The very term *private property* has a great emotive force here, as many people associate it with exploitation, unemployment and social insecurity," the official news agency Tass said in a commentary.

The 35-article bill, as a consequence, never uses that phrase, speaking instead of "the property of citizens." At its first reading in the autumn, the bill caused such controversy that it underwent substantial revisions, according to Tass, and at least 10,000 changes were written into the legislation.

The bill, more significantly, also avoids defining "means of production," except to give farmers the specific right to own equipment, such as tractors, that was previously classed as capital goods and thus not available for sale to individuals. This question will be settled later, Abalkin told reporters, so that some republics, notably Estonia, Latvia and Lithuania, could proceed on their own.

The legislation prohibits "exploitation" of workers, but it does not define "exploitation" nor specifically bar the employment of workers, whose salaries and benefits might be such that no one would argue that they were exploited.

The bill did have its defenders in the often emotional debate.

"If we want to have a market economy and participate in the international marketplace, then we need such a law," Justice Minister Veniamin F. Yakovlev argued.

Alexander A. Korshunov, an aircraft factory employee in the Central Asian city of Tashkent, said that "private property already exists and will develop further—let's not kid ourselves about that—but, like all forms of property, should be controlled and taxed."

"We may not like private property, and it may go against what we have thought and been taught for a long time," he said, "but that is not an argument against it, particularly when we are looking for a way out of the country's economic crisis."

Argentina, Britain Heal Rift Caused by Falklands War

MADRID—Argentina and Britain announced an agreement Thursday to restore full diplomatic ties, nearly eight years after they fought a 74-day war over the Falkland Islands, a sparsely populated archipelago off Argentina's coast in the South Atlantic Ocean.

The announcement capped two days of talks here between Argentine and British officials. Britain agreed to lift by March 31 a 150-mile military protection zone enforced around the islands since Argentina invaded them in 1982.

The pact calls for advance notice by each side of military exercises around the islands, which are home to about 1,900 people.

In the war over the islands, called the Malvinas by Argentina, 712 Argentines, 255 Britons and

ADD EXCITEMENT TO YOUR ROOM DECOR
Don't Miss Upright's
WINTER DRAPERY SALE
OUR ENTIRE STOCK OF DRAPERY FABRICS REDUCED FOR THIS SALE
SHOP IN THE COMFORT OF YOUR OWN HOME FOR WINDOW FASHIONS FROM
UPRIGHT DRAPERY STUDIOS
Exciting World of Decorating Ideas and Designs

SAVE 30% TO 50%
on custom
Window Treatments
CUSTOM DRAPERIES, BALLOON SHADES AND VALANCES,
M.B. MINI BLINDS, VERTICALS, AND PLEATED SHADES.

Choose from a wide selection of decorator fabrics such as luxurious antique satins, multi-colored boucles, soft sheers, imported damasks and award winning prints.

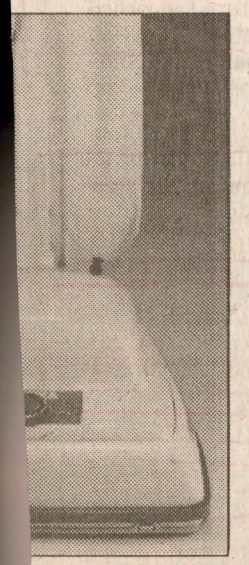
DELIVERY IN 7 DAYS
Possible because all our sale fabrics are in stock, and we operate our own custom-workshop giving you faster, more efficient service. Rely on Upright for fashionable styling, expert workmanship, the finest hardware and installation.

GREAT CARPET BUYS
DUPONT Now only

CUSTOM MADE
DRAPERIES
FABRIC NOW ONLY 7.95
Our Workmanship Is Superb!

SERVING YOU SINCE 1951
upright DRAPERY & CARPET STUDIOS INC.

Main Showroom—1522 Westwood Blvd. LA



Feb. 8, 1990
PRELIMINARY AND SOMEWHAT RANDOM OBSERVATIONS ABOUT SOVIET PROJECT

From Lowell Harriss to Schalkenbach associates

1. On the making of Utopias. Hopes for broad changes in a society should lead to challenging and constructive suggestions. But there is temptation to attempt too much. One can never know the full results of a change, especially if it involves major element(s).

We can, and should, think ambitiously--but with clear and forthright warning about the limits of knowledge.

2. Vi Peterson once remarked that Georgists are people with more than a little independence and lack of agreement. We may differ on "the Georgist model." So be it. The difference is to be welcomed as a challenge. WE SHOULD NOT RELY UPON SACRED TEXT(S). The best that could have been known in the late 19th century did not include knowledge from experience and developments more recently.

3. Centuries of human relations to land must be taken into account. My impression is that there will be differences of significance from area to area.

4. Rural and urban--what is now and what will be the relative iportance in the years ahead? How can (must?) reforms take account of differences? Per unit of land area the "big money"--and the biggest potential influences--will be in urban areas I should think. For the near term, however, agricultural land may present the more promising focus for effort.

5 Who gets economic rent in the Soviet Union now? Although failure to allocate land efficiently will curtail the amount of the distributive share we call rent, there is something. In urban areas I suppose that it goes largely to tenants as they repay occupancy costs that reflect a large subsidy. As to agricultural land, I'd think, the rental element probably goes to consumers in prices below a free market level. But we might think about the problem because the changes we are likely to support will involve upsetting some relationship

Perhaps a (large?) portion of what we propose would consist of shifting to government budgets money amounts that consist of a "taking" from present subsidies (largely in the form of consumer benefits).

re tax

6. Use of the term "single" diverts attention. We should abandon its use. Whether or not economic rents could once, or today, pay for all government, raising the issue must shift attention from the more crucial matter of means of measurement. There is need to learn about amounts, to provide better rather than poor estimates of magnitudes.

Inevitably any major change would so alter capital values and relative relationships that yesterday's figures will be made obsolete by the very modifications being proposed. Mrs. Hellman writes that George did not himself attach great importance to the element of "singleness." In any case, I submit, the fact that amounts will be large (I expect) deserves the emphasis.

7. The thought of seeking 100 percent of rent for government (politicians) brings up the incentive issue. I have always felt that the user of land (or other natural resource) should have a direct and not small incentive to put it to better use. If the public--and voters and civil servansts and the military and elected officials can be greedy--insists on taking all, who, really, will be working hard and imaginatively to find and realize "higher and better use"?

8 What can we hope to do? When? How? A drafting of broad outlines could, and probably should, be a near-term objective. An aspect that troubles me is the extent to which we should try to take account of Soviet realities. If we "high plane" and stick to generalities and principles, we can probably make a statement of value within a few months.

If we try to be more realistic and take into account the realities of SOviet conditions as regards land and other natural resources, would we not face a stupendous task? Who knows enough to provide reliable guidance? But without grounding in specifics of Soviet land law (not yet made?) and the way economic affairs will be conducted, how can we be sufficiently realistic to inspire confidence and respect--and deserve to be taken seriously?

9. The proposal to emply auctions haS appeal as the most probable means in the foreseeable future. Bidding would, I suppose, be on the basis of shares of output. No one knows what market prices will be, for outputs and non-land inputs. Or, as of now, the mathods that will be used to determine them. For urban housing , offices, factories, hospitals, etc., the institutional arrangements may change fundamentally--or they may not. How might concern for use of economic rent influence other aspects of institutional change?

Now later

Nic 3 June

1. Adele Wick
2. Fred Hutchison
3. Gene Wunderlich. (Aladár Sipos, Hungary)
4. Lisichkin & Tikhonov
5. Handie
6. Dorfman discussant, accepted. 617-495-7730
He should be tapped for more ideas.
7. No word from
Crommelin
~~Kluetsch~~ Kluetsch
Berry
8. Need to replace Couchene
9. ✓ Id. people on Town?. Rene the Czech
Karoly?. Barnes?.
10. Jewish Nat Fund etc?.
11. Clinton-Ross is the one for Patrick. vs. Fixed Rent — he and/or Gregg Erickson.
12. Ned Eichler on banking w/o land.

13. Hernando de Soto, Lima, Peru.
Inst. for Freedom + Democracy

14. Tom Russell, Prof. Geophysics, Houston
Jt. Ventures in Sov. Union, oil.

Aug. 22-24

(2) ✓ Arthur Maass. Dept. of Govt.

Wtr. rights.

✓ Dan Yaron, Prof Ag Econ.

Hebrew Univ. Now at U of Mass.

✓ Phil Ramp u.a.

(1) Greg Grossman. 415-548-5542.

Will get back

Joel C. Brada Temple, AZ, ASU.

Knows USSR.

Ned Eichler

#1 Karen Brooks, St. Paul.

Tenants may let landlords participate, but builders borrow & assume high debt service.

(Govt. partners & corps. get lenders to participate)

Ways to Incorporate Rent Socialization in

the Transition to Private Land Tenure in the USSR

(A conference to be sponsored by the Robert Schalkenbach Foundation

and to be held probably in mid-June, 1990)

Some topics to be covered and possible authors:

Moral and Efficiency Arguments for the Social Collection of Rent
- Mason Gaffney?

A Simple, Practical Protocol for Assigning Rental Value to Land - Ted Gwartney

Extending the Social Collection of Rent to a General End to Privilege and Political Exploitation - Nic Tideman?

Complementing the Social Collection of Land Rent with Marginal Cost Pricing for Public Services - Bill Vickrey?

The Impact on Land Rents as a Criterion for Investment in New Social Overhead Capital - ?

Allocating Socially Collected Rent among Levels of Government - ?

Extending the Social Collection of Rent to the Pricing of Environmental Externalities - ?

A Sophisticated, Market-Based System for Assigning Rent to Land - Nic Tideman?

Principles for the Social Collection of the Rent Associated with Exhaustible Natural Resources - ?

Pricing Protocols for the Transfer of Socially Owned Capital to the Private Sector - ?

applying tax to public lands. ~~Rate~~ Tax exemption for parks, R.O.W., etc

Land Tenure System of Sov. Union

Non-standard rent terms for novelness.

Tax on L.V. Δs as supplement

a net proceeds tax and Δ L.V. tax coord. w. Lvt.

✓ Record of lending w/o land collateral:
Prodn. Credit: factoring: bldg. on leased land

~~State coop~~ Leasing terms in pvt. Mkts.

PRELIMINARY, 9 February 1990

On revising land tenure in nations emerging from communism

Mason Gaffney

1. Some private enterprises with apparent land tenures already exist in USSR.

McDonald's fast foods
Reichman's proposed 60-story building (are they to own it, or just construct it for some state agency?)
Ventures of Armand Hammer?

Agenda: study these tenures.

2. Most land is already tenured, i.e. not a commons. We must work from the existing system. Presumably land is assigned with more or less formality to the state agency that operates or administers it. Possibly some transfers have occurred among agencies; possibly even some rents are paid. We must overcome our knowledge vacuum.

Agenda: enlist a sympathetic Soviet specialist with an interest in land tenure.

3. Transferring land to private control involves several steps.

a. Platting and surveying. Platted units should be small, to accommodate individual bidders. Existing bias for gigantic scale must be acknowledged and drastically offset -- their idea of "small" may be 1,000 acres or so.

Small units do not put upper limit on size of holding. Initial bidding should let bidders go for more than one parcel at a time if desired. Small units simply mean small bidders have an equal chance; they provide flexibility. They also point toward a primary state role in platting and subdividing (infra). (If units sold are above optimal scale, then the first private buyer is in charge of platting and subdividing.)

"State" is used generically to include regional and local government, without specifying the level at this time.

b. Platting is on paper; subdividing is in the field. Subdividing takes capital and permanently influences settlement patterns. It is a key event that dominates layout of the public sector. It entails provision of networks of streets and street improvements, by allocating rights of way, and points or edges of access of private land to public ways.

Interactive coordination and decision-making is required between (mostly) private on-site and (mostly) public "inter-site" (street, road) sectors. "Interactive" implies mutual learning and accommodation among autonomous public and private parties. LVT gives the public sector a new and powerful tool to elicit and assure early optimal response of private sector to public initiatives -- e.g. filling in private sites accessed by a new road system, or mass transit line. It does not assure the wisest public initiatives will prevail, but also gives the public sector a guide for planning roads and transit: route them to area that will generate the most public revenue from higher land rents. (Enclosed paper, "Land Planning and the Property Tax," makes a start.)

More than routing is involved. Sizing parcels is a key decision. General rule is to size parcels so as to maximize unit value after deducting costs of allocating land to r.o.w., and improving it, and operating/maintaining it. Platting, planning and subdividing are highly developed arts, available to be studied and imported (and modified as desired).

We can show them general guidelines. Implementing the concept of interactive development planning may require major reorientation of embedded Soviet and Russian cultural patterns. It is an ongoing, messy process one has to experience. The Russian experience has been and will continue to be different.

[It is probably fortunate we are not in a position to offer our own culture as ideal, a posture likely to provoke resentment. Rather ours is a churning stewpot of experiments from which they may learn, from failures as well as successes.

In their present mood of contrition and eagerness to learn and change, coupled with their authoritarian background, they may actually respond best to attitudes we would normally reject as arrogant. The Japanese attitude toward McArthur's reforms comes to mind. We must get to know them, test their reactions, and meet their psychic as well as intellectual needs. Japanese success, however, entailed absorbing and Japanizing western ideas, not imitating slavishly; not from adopting but adapting. It is with nations as Emerson said of individuals: Great men leave no models; each is great in his own way. The Russians will do it their way; we must expect that.]

Providing good intersite infrastructure fosters small scale private firms on sites. Intersite improvements are roughly coterminous with "public" sector (including regulated private sector). The massive Soviet bureaucracy can find a useful transitional role, and some permanent work, in this large residual public sector.

Privatizing land use implies drastically revising the

public intersite sector to accommodate the new patterns of use. This will absorb large effort and capital for years.

Parts of the public sector must lead, as land is divided. Early improvements should be low-cost and as flexible as possible, while experience is gained with the private sites. The optimal size of firm, and intensity of land use, depend in part on what public sector does.

c. Recording titles and deeds. (A Torrens System is probably best, but not a major issue.) All records shall be open to public inspection. (To reenforce and dramatize the point, data on land shall be publicized pro-actively, not as a grudging concession to some persistent reformer-researcher.) No unrecorded contract shall be enforceable.

This is occasion to record public servitudes, announcing the prior public claim on ground rent overtly, unmistakably, unambigously. Repetition and redundancy are permissible and desirable: unrepeated laws easily lapse into dead-letters.

All debts secured by capital affixed to land shall be recorded (otherwise not enforceable). Every recording shall explicitly acknowledge the private debt is subordinate to the public right to ground rent. Land itself shall never be pledged by private parties. Neither shall the state pledge land to secure its debts.1

All title transfers (deeds) shall be recorded, and the consideration. Details shall immediately be posted publicly, in a form easily understood by normal literate adults. (A Bureau of Land Statistics shall be formed to publish and analyze this data on an ongoing basis.) Payments shall be made only in cash, through a public escrow (or audited private escrow). Penalty for violation is forfeiture. This penalty shall be mandatory, not at judicial or administrative discretion.

d. Bidding. Initial sale of titles is by competitive bidding. Terms of sale are these.

---

[1]The reasoning is that this opens the possibility a prodigal administration might indirectly alienate the nation's land by overissuing debt. The state would then become an instrument for collecting rents for the benefit of bondholders. The history of public debts offers ample warning.

The idea, rather, is the state shall be an instrument for channeling rents into public goods and services, and capital formation.

i. The standard term is a stipulated initial ground rent, cash, due at beginning of each month. All other interests in land are subordinate to this rent, as well as to later increments as determined below.

(Non-standard terms shall be developed, a) for special situations like water rights and mineral exploration; b) for extra-risky lands where operators show a strong preference for forms of participation; c) for pioneer conditions where deferring part of rent may be justified.)

ii. Annual revaluation of cash ground rent, based on comparables, records of net proceeds, and other evidence in standard use by valuers.

I will use the term "rentax" to identify this charge. It may take the form of a rent or a tax, depending on the kind of tenure. Presumably there will be both leasing (what we call non-freehold tenures) with payment of rent; and transfer of fee simple title (what we call freehold tenure) subject to tax.

[Less frequent revaluation, say quadrennial, will be suggested, allegedly because of expense. This argument strains at a gnat and swallows a camel, and should not be accepted. If it is, however, revaluation should include lump-sum recoupment of rents over prior three years, if comparables indicate it is warranted. Be strict about this, to avoid any impression the state's claim is secondary. Experience shows landholders quickly adapt to low rent-taxes, regarding them as vested rights, and ungratefully resist increases, let alone repaying past favors.]

iii. Landowners are put on early notice to expect a high tax (something like 80% or more) on gains, if any, from sale of land with fixed capital. It is declared contrary to public policy for land to attain a value based on expected future resale. Resale gains are not illegal, but should be carefully monitored as an audit of the system. Existence of resale gains is to be taken as evidence either that cash rentaxes are too low, or there is inadequate public conviction they will continue to take all the rent, and/or adjust upwards with rising rents. This is to be viewed with alarm and aggressively corrected, knowing how quickly buyers presume they have a vested interest in private rent-collection based on paying for land titles.

A very high gains tax will have no damaging locked-in effect; the annual rentax liability is a strong ongoing incentive to dispose of surplus land.

Gain is excess of sale price over depreciated base.

Agenda: Determine manner of recording fixed

investments, and depreciation, in presumed absence of income tax. A tax on "net proceeds" (land income), conjunctively coordinated with a fixed cash rent-tax, is a possibility to be thought out and/or researched before our meeting.

Transfers without arm's-length consideration at time of death, or other legacies, gifts and bequests, shall trigger a valuation, with tax on the gain if any. [Organizations depending on bequests will object. The answer is, it is desirable they be supported by donations from sources other than land, so they will be inclined to cater to the entire society, being less dependent on rents.]

Agenda: Coordinate this with treatment of deathless corporate owners, to avoid bias against non-corporate owners. USSR will be in process of facing the entire question of corporations and their status.

A supplemental transfer tax, based on gross value of land transferred (not just equity), may be desirable as a tool of disclosure.

iv. Possible net proceeds tax, conjunctive with fixed cash rentax. This is to accommodate the preference for participation shown by some lessees and taxpayers.

A net proceeds tax would be graduated according to return on real capital placed on site. It is based on the idea of participation, sharing risks and gains. Some lessees seem to prefer this to fixed cash payments. This tax will vary inversely with quantity of capital placed on site, and directly with rate of return. This is the most contestable and complex proposal, and is to be justified (or rejected) and detailed in Appendix.

(Appendix to present draft only itemizes some major issues and considerations. It does not present a workable, affirmative proposal. That remains a priority agenda item to be completed in writing before our meeting.)

v. Ceiling price. Up-front price shall be the bid variable only up to some modest ceiling. The objective is <u>not</u> to collect for land up-front, but over time, in perpetuity.

Persons wanting to bid more than the ceiling price shall bid by raising the ground-rent offered. (Alternatively, they might bid by offering a higher share of net proceeds.)

vi. Land users shall be subject to police power as to nuisances, etc.; to eminent domain; and other standard servitudes.

vii. Books of owners and lessees shall be open to

inspection by assessors, as basis for determining rents or net proceeds.

viii. No public employee may accept employment with a private person whose property he has valued, nor own or lease land other than for a primary residence and one vacation home.

4. Education and training of valuers shall be given highest priority.

APPENDIX

Net proceeds tax

1. Announced objective is to secure for state the ground rent of land, and secure for lessee or landowner a return for his capital and labor applied to land. All measures are to be interpreted and administered subordinate to that overriding objective.

2. Advantages of cash rentax

a. Precludes stalling, the most common fault of landowners. Owner-tenant pays for right to exclude others from the land, which is what "using" or "consuming" land actually entails in essence.

b. Subordinates other claims.

c. Inhibits engrossment and forestalling.

d. Has no marginal disincentive effects on land use -- only on preemptive landholding. (Can be shown to have a positive marginal incentive on usufructuary landholding.)

e. Requires the least record-keeping.

3. Disadvantages of same

a. Puts all (uninsurable) risk on owner-tenant: risks of product price decline, of weather, of input cost, of obsolescence of capital, of inappropriate capital improvement, etc. Adds a special, novel risk, that of overassessment of land following commitment of fixed capital. Soviet tradition of arbitrary abusive authority, and confiscation of capital, may exaggerate the disincentive effect of this anxiety.

b. Lenders will be nervous, too. They are used to using equity in land as collateral cushion, when they finance new buildings. That is not a desirable or necessary condition, but

they need some weaning away from it. We are talking about a revolution in financial practise when we devalue land as collateral. Lenders will resist it: it makes them work harder, evaluating projects and individuals rather than just appraising land.

Agenda: gather elements of record of experience of lenders in Irvine area, Hawaii, federal lands, Canadian crown lands, other areas where land is owned separately from buildings. Reichman practise is instructive: they pledge leases for loans, rather than title to real estate. Factors are skilled at lending on inventories without land security.

c. Penalizes or taxes owner for finding new virtues in land: a new higher use, minerals, etc.

d. In pioneer conditions presumes advance knowledge that is lacking: knowledge of qualities of land (especially subsurface minerals); of land market; of demand and supply conditions in markets that may not yet exist.

e. Generates no information, as income tax does -- assessor does not see the books routinely.

f. May result in lower returns to state, if land users prefer risk-sharing participation and will pay more (averaged) under participation. The evidence that users may pay more is that in private markets participative leases are common. This phenomenon warrants careful study.

Agenda. I shall provide a firm proposal for an optimal participative lease, or net proceeds tax. I started to write this but got bogged down with that feeling (which you know too) there is a nut to crack, after which a proposal will fall together. I will crack the nut first, before imposing my scattered thoughts on you.

I am not at this time fully persuaded the net proceeds idea is worth endorsing, except in limited applications like exploration for minerals. Do not interpret my interest as advocacy or conviction. I may go either way; I have some thinking to do. However it is important we do that thinking, so we can explain why we reject it (if we do). It will surely come up.

Enclosures:

Land Planning and the Property Tax
Objectives of Government Policy in Leasing Mineral Lands