Maximising Rent on Crown Lands

From a paper *Objectives of Government Policy in Leasing Mineral Lands* by MASON GAFFNEY, British Columbia Institute for Economic Policy.

"The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be entrusted to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself to exercise it."

—ADAM SMITH

THE statesman in charge of leasing vast Crown lands might seem forced to direct private people how to employ their capitals, and their persons too. He certainly has the power, and he certainly has the responsibility to use his power in the Crown's interest. But there is a way to do so without being arbitrary, capricious, meddlesome, subjective, tyrannical, or inefficient. The best to serve his citizens, the statesman should act much like a private landowner maximizing his net income from lands. He should resist being tempted to use his power to manipulate and control, foster and suppress, divert and channel, reward and punish on the too easy presumption that the market has no rationale of its own.

A landowner who is maximising the net income from lands is tolerably likely thereby to be directing them to their highest and best use—the use meeting the most human wants and needs. Net income after all is a measure of the excess of benefits over costs and that is what it's all about.

The official who grasps that concept may then identify many costs that some people dump on others, and benefits they bestow on each other. He may seek to internalize these externalities in his planning. But as one surveys the dogmas that hold sway in many professions concerned with land use he sees a dozen bad ones for every good one. It is the rare official today who can sort these out well enough to improve on the market. Improvements that are possible consist mainly in helping the market work better, not in rejecting it.

A landowner does not simply "maximize rent". First, the objective is to maximize the value of net land income over time, not the rent of any one year. With minerals especially, timing is of the essence. That means not just when to produce but also when to explore, when to begin, how fast to produce, and when to stop. Second there must be a rent base, which presupposes public investment in infrastructure and private and/or public investment in exploration.

Third, we must find ways to collect rent while preserving its total amount. This means avoiding heavy dependence on high gross royalty which destroy marginal incentives. We need other means to collect most of the rent, for rent is 60 per cent of the gross value of very low-cost mines, and nought per cent of marginal ones.

Fourth, the land administrator should avoid dissipating rent by fostering or allowing excessive and premature investment. Land can be overdeveloped and prematurely developed as well as the reverse, and it is net, not gross rent one should maximize. Our "Free Mining" regulations make prospecting something like fishing on the open seas with unlimited entry, attracting new boats—or prospectors—until the average entrant can earn nothing above real costs, so there is no rent remaining. At the same time the land manager who puts reserves in cold storage should distinguish clearly between merely establishing tenure control to maximize net rent and wielding market power to raise prices. The second is of negative social benefit when consumers are included, and of questionable benefit to the would-be monopolist unless he be exceptionally lucky and astute.

Fifth, we should avoid dissipating rent by letting lessees have it on condition they plough it back into mining or exploring. This is in effect treating a capital investment in Mine B like a current expense of Mine A. It diverts rent from the lessor to lessee, and force-feeds capital into new mines below the social opportunity cost.

Sixth, we should check and control the common itch just to meddle and manipulate. It has been said that excess profits are either competed away or "imputed away" as rents. To that we should add they are often piddled away. A common kind of frittering is the luxury of indulging uneconomic ideologies by officials who control resources.
The official usually has no commission to impose his subjective concepts of equity on others, and may only be putting a good face on self-interest in any event.

Subject to such provisos and understandings, the objective of government policy is to maximize rent—and then of course to collect it. Rent is by definition a surplus above the return required to motivate production. It is equally well defined as the return imputing to land. In either concept it is essentially the fat without the lean. The less of the lean one cuts into by clumsiness, the more of the fat he can secure without impairing functional incentives.

I would begin by clearing the ground of common and characteristic errors and blunders to avoid: errors embedded deep in our institutions, rhetoric, and cultural baggage; errors that preclude any rational effort to maximize welfare. I define eight of them: 1, Overdecentralization, a hornet's nest of at least ten likely blunders to commit in the effort to collect rent; 2, Overdelegation of public authority to private giants; 3, Overallowance for alleged risk; 4, Over admission of prospectors; 5, Underpricing to domestic users and consumers; 6, Confusing rent and profit; 7, Overlooking the taxation of non-mining activity; 8, Overconsolidating accounts, letting the strong hide behind the weak as to equity, and the weak behind the strong as to viability.