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Report on the Conference on the Social Collection of Rent In Eastern Europe and the USSR

KENNETH R. GRAY of the United States Department of Agriculture (Branch Chief, ERS/USDA, 1301 New York Ave., NW, Washington, D.C. 20005) wrote the following, "A Report on the US-USSR Conference on Concepts and Procedures for the Social Collection of Rent in the USSR" for the September 1990 *Newsletter for RSEEA.* It appeared on pp. 29–32 of this publication devoted to Research on Soviet & East European Agriculture, which is edited at the Center for Business & Economic Research, School of Business, Economics & Management, University of Southern Maine, 96 Falmouth Street, Portland, Maine 04103. It is reproduced here with minor emendations and permission of the author and editors.

A conference on taxation and land with special attention to the application of the ideas of American economic and social thinker Henry George to the emerging situation in the Soviet Union was held in New York City, August 22-24. The conference was sponsored by the Henry George School of Social Science and the Robert Schalkenbach Foundation. Attendees included a group of Western sovietological economists, a group of Soviet economists including both specialists on Soviet agricultural prices and rent, and a group of American economists, including specialists on public finance and development and land economics. There were also present an economist each from Czechoslovakia and Hungary and representatives of the Henry George School and Schalkenbach Foundation. The conference was organized by Professor Nicolaus Tideman of the Virginia Polytechnic Institute.

Henry George's "single tax" idea is an argument for taxing the value of unimproved land for the benefit of society, more heavily than taxing wages, profit or interest. The efficiency argument for this is that taxation of the latter would discourage work effort, entrepreneurship and savings and investment. On the other hand, land is "God given," and already existent, so its supply is perfectly inelastic. Taxation of economic rent (properly separating it out from the other factor returns) would in theory not distort any economic activity. On equity grounds, the argument is that ownership of land is (at least when it is initially appropriated from nature) a *privilege* not afforded to all in equal measure, whereas wages, profits and interest are earned by those who sweat, think, organize, invest, take risks and forego consumption. The claims for land value taxation also include the idea that taxing land rent would increase the opportunity cost of speculative holding of land and force the use of land in the highest opportunity use. Near 100% taxation of economic rent would lower the price of pure land (but not land with improvements) to zero, reducing entry barrier, thus promoting competition in activities which require land.

Henry George's single tax ideas are not universally accepted, although the operative criteria of equity and efficiency are central to most social analysis of taxes. That is, there are a number of arguments against heavy land value taxation, involving for instance the claim that land and capital values cannot always easily be separated, the argument that land value is not large enough to provide adequate state revenue, and the equity argument (which would apply especially in a period of transition to this tax) that an abrupt increase in the percentage of land value taxation would be confiscation of property of some who may well have sweated hard to "earn" what they have just purchased. The absence of private ownership in the USSR today, as it approaches privatization, obviates this latter concern to a great extent.

George, Marx and Tolstoy. Whatever the pros and cons of the Georgian argument, this conference (which debated them) presented a fascinating springboard for formative thinking about problems of Soviet public finance in an emerging market economy.

It was observed at the conference that Marx (1818-1883) and George (1839-97), living at about the same time, observed many of the same things, but drew different conclusions. Both observed great economic progress and both had social concern for coincident problems of contrasting extreme poverty and extreme wealth. But whereas Marx saw the solution to income inequality and economic instability in total state ownership of all non-labor means of production, George lived in America where he saw and appreciated active entrepreneurship. His vision of improved society would remove privilege, but sustain decentralized ownership of the means of production and maintain rewards for the efficient application of these resources.

Initially, it would seem that Henry George's ideas could be a competing social philosophy to Marx's, in a new Soviet society where state monopoly control is discredited and pluralism and efficiency through decentralized property ownership and market relations are sought, but where many retain social concerns about income distribution. One Georgian at this conference spoke of Russia's ability to "leapfrog" the west if it adopted a fundamentally superior philosophy of state taxation at this time.

A revival of Henry George's ideas in Russia and their influence upon social policy seems a real possibility. It came out during the conference that Henry George's writings were well known in prerevolutionary Russia. On display was a third edition of selections of George's writings containing a bibliography of over two dozen articles on George's ideas in Russian, in books and intellectual journals of the day. This book (*Izbranniia rechi i stat'i Genri Dzhorzha,* trans. by S. D. Nikolaev, izdanie "Posrednika") from the library of the Henry George School had been presented to Anna George de Mille, daughter of Henry George, by Count Leo Tolstoy, a follower of George's. Tolstoy, who lived from 1828 to 1910, was a principal promoter of George's ideas in Russian, where reportedly these ideas were frequently known as "Tolstoyian Economics." (A. L. Meyendorff pointed out in his paper, that Russian agricultural economist G. Studensky had also recommended agricultural land taxes extracting all of land rent in the 1925 book, *Renta v kresyanskom khozyastve i printsipy ego oblogeny.*)

Current Issues of Soviet Land Law and Taxation

Mikhail Bronshtein of Tartu University, a long-time proponent of marginal analysis in economics, is now a USSR People's Deputy and member of the Reform Commission of the Supreme Soviet (Parliament). Bronshtein spoke both as a theoretician who had been interested in land rent for thirty years and now as a practitioner/legislator. Bronshtein said that "most" now believe that the best solution to economic problems is to privatize and sell land as soon as possible—although there are a number of practical problems with this. The three advantages are that privatizing (1) would provide a "master" (khozyain) for the land and (2) eliminate grain imports, and (3) provide a solution to the problem of inflation and monetary overhang. Regarding the latter, Bronshtein maintained that the sale of only 10 to 15% of land would pay the state's internal and external debts.

There are several problems, however. The first one Bronshtein identified is the lack of "human material" (chelovecheskyi materiali) to undertake private farming. He said 95% of farm people were not qualified to be individual farmers—that the best talent was in young well trained urban "engineer" types.

The rural people didn't have the money to buy land, and wouldn't take the risk if they did. (He said that the cost of land would run about 10,000 rubles per hectare or for 30 has., 300,000 ru. to which could be added another 100,000 rubles for farm equipment.) Urban people who had money to buy wouldn't farm the land. Foreigners could have the money, and he would not oppose their buying some land.

There was a moral problem in the state's selling land back to those from whom it had taken it—as in the Baltics. He felt that partial compensation was appropriate for some victims of Stalinization. (When asked about selling land in March of this year, A. A. Nikonov, president of VASKhNIL and one of the authors of the present USSR Land Law, said that land could not be sold until the credit system was improved, because there were currently too few able to pay, and these were unpopular "speculators." k.g.)

Bronshtein said that fellow People's Deputy and member of the Presidential Council, Albert Kauls (Chairman of the Adazhi agroindustrial combine, Latvia) had taken title to 100 ha. of land which his children farm.

Ivar Raig, also of Tartu University, the Estonian Academy of Science, and Estonian and USSR Congresses of People's Deputies, agreed that there was not enough private money to buy the land. Raig (and the political party of which he is chairman, the Estonian Agrarian Center Party) would declare the nationalization of land by the Soviet Union in 1940 unlawful and return it to property owners as of 1940, also taking into account work done by individuals since 1940. All land and other assets would be valued monetarily and "shares" given to 1940 owners or their heirs, and to all current citizens of Estonia according to their work since 1940. However, apparently these shares would convert into a type of money that could be used to buy capital goods that are sold into private ownership including farm land and other assets.

Raig fears the takeover of property by former party officials and profiteers. Privatization does not necessarily mean the immediate breaking up of current production units—the new owners would decide this.

Bronshtein feels that a proper compromise would give land to former owners under the condition that they work the land, have proper qualifications. He cited West European practice in which the transfer of land is often limited by local government approval which might examine qualifications. Otherwise the municipality should sell land to another person who would work it. Questions remain of to whom land would be sold, how it would be paid for, and at what price?

Meyendorff discussed the history of economic thought concerning land rent in the 1920s and later. He also discussed the interrelationship of rent and agricultural prices—the latter being greatly differentiated in the attempt to extract differential rent. He discussed current institute recommendations for the assessment of rent, most of which suffer from the continuation of arbitrary prices. Meyendorff pointed out the leasing of land is not presently working out well.

Ken Gray, USDA, citing a previous work ("Soviet Agricultural Prices, Land Cadastres and Rent," J. of Comp. Economics, 1981) and Nikolai Borkhunov, head of department at VNIIESKh, Moscow, cited various advantages to going to a system of uniform, undifferentiated farm prices, with rent taxed instead by payments differentiated by land quality. The present system discourages cost specialization, and "sets up" would-be middlemen who would perform invaluable processing, transportation, and storage functions, but could be charged with "speculation" in performing arbitrage across price zones when the quasi-rents from this could not be equalized because prices are fixed.

The USSR Land Law which was passed in February 1990 allows for detachment of land for individual or collective use from existing use by the local council (raion soviet). This can be against the will of the existing collective and state farms, although it is not likely to be because of the continued power of the chairmen and directors of these farms. Land is to be used in perpetuity with the right of bequeathing to heirs, however the USSR law does not provide for sale. M. Bronshtein knew that the RSFSR project law on land (not published until August 22, in the newspaper *Sovietskaya Rossiya*) provided for the buying and selling of land (subject to authorization of the local soviet).

Conflict Concerning Who Has Jurisdiction Over Property

The differences between the USSR Land Law and the RSFSR Draft Land Law is whether the land should be sellable. This illustrates just one of the variances involved in the current constitutional conflict in Soviet society. One aspect of the conflict is who has the right to define property rights, another is who has the right to sales receipts from the sale of property that is being privatized, or from future tax or rental receipts.

Bronshtein noted that on November 16, 1988 Estonia first declared all property in Estonia the property of Estonia and Gorbachev said, "no." Now, however all republics claim jurisdiction over their own property, and the USSR Land Law concedes this, the Supreme Soviet essentially saying, "we can't decide, you decide." Now municipalities within republics are springing up saying the rent is theirs. Bronshtein related a recent conversation with Yeltsin (president of the RSFSR) in which Yeltsin declared all Russian land and natural resources the property of the Russian republic, but that he would devolve this ownership to local councils. Clearly, as political alignments are being sought, many promises are made. One can recall also that Lenin's adoption of the SR position of "land to the people" in 1917 was subsequently reneged upon.

Bronshtein noted that there are now three claimants to property within the city of Moscow: Popov's city council, Yeltsin's Russian Republic Government, and Gorbachev's Union government. Popov's government has evaluated Moscow land rent at 1 1/2 to 2 million dollars per hectare.

The idea was put forward that a rule for defining the level of ownership rights in a new federal system might be for localities to have tax authority over surface rights, but for higher levels of government to own subsurface rights. Subsurface rights are often not private, but retained by the state in capitalist market countries.

Recommendations From the Western Economists

There was a general sense that assignment of individual property rights to agricultural land should take place quickly so that productivity could increase and potential land rent (now dissipated) could be realized. Land could be distributed in various ways, perhaps differing by Republic. Dick Netzer (NYU) thought that land could be given away, but with the notification that a certain percent of the value of land rent would be later taxed. He also thought that a "justice commission" could clean up equity claims later and provide compensation in some cases.

Netzer emphasized the need, though, for a market for land, so that land would be put to its best use. Elizabeth Clayton (Univ. of Missouri-St. Louis) noted that it is essential to clarify land *titles*, because with titles one could sell and buy and use land as collateral for credit. She and M. Manning Cleveland both mentioned that in some cases the state could retain "ownership" of the land (as in London where the Crown or other royal entities "own") but that there could be a market in leases. This might be more acceptable ideologically, in cases where more explicit private ownership would not be. Still, the function of a *lease* market would serve in allocating land to its best uses.

Both Manning Cleveland, who had completed a relevant project in San Francisco in the 1970s and Ted Gwartney (a professional appraiser) maintained that the separation of the value of improvements from the pure unimproved value of urban land was easily done. It could also be done in the Soviet Union for the purposes of land value taxation if (1) there were good land maps, and (2) there was a functioning market that would establish markets for benchmark pieces of unimproved land.

At the end of the conference there was an attempt to sort out terminology, which in two languages had become quite confused. Nicolaus Tideman and William Vickrey (Columbia U.) associated on one hand the terms, "lease," "rent" and on the other hand, "own" and "tax" defining the relationship of private citizen land user and the state or landowner. Permanence of tenure is often the issue: leases may be in perpetuity, so that the property relationship approaches ownership. Or tax regimes may become confiscatory, which is tantamount to termination of a lease. An efficient tenure relationship requires permanance, secure ownership, a lease in perpetuity, or a provision for compensation upon termination of a lease. All situations require confidence in government to insure stability.

Nicolaus Tideman pointed out the view of Henry Georgians, that efficiency requires either ownership with the right to sell, or if there is no sale right, the taxation of 100% of rent, to force the efficient use of land. The problem of inefficient use of land that concerns Tideman would become significant were land simply given to rural people who were, as Bronshtein described them, incompetent. This would be true especially if these people had no sale rights and could not transfer the land to people who would fully utilize it. Even were there sale rights, the purchase of land by urban people who have large ruble holdings as a store of value or hedge against inflation, might often leave land poorly farmed. In the Georgian view, a land value tax would increase the opportunity cost of holding land unproductively.

Land Rent and Scale of Farm

The role of "incentive tax systems" as an alternative to land redistribution in Latin America, with possible applications to the USSR was examined in a paper by Albert Berry (U. of Toronto), and his discussant, M. Manning Cleveland. Both pointed out various sources of market failure in actual land institutions, especially in South America, which cause farm units to be too large and land poorly distributed. These analogies are of great interest for the situation of the USSR where various factors create a great deal of inertia for the retention of the approximately 50,000 huge socialist farms.

Ken Gray pointed out four reasons why large farms persist. The first two reasons involve imperfect markets, reasons mentioned in western studies of industrial organization as factors leading to various kinds of merger. (1) Given the non-existence of wholesale markets for off farm inputs, small farmers fear the risk of uncertain availability of these inputs. Large farms are sometimes referred to as "purchasing agents" having countervailing power in this type of economy; equilibrium prices for inputs would help solve this problem. (2) The lack of good markets for intermediate farm products and for the processing of farm products leads to large vertically integrated farms, large enough to incorporate various stages of farming and processing under one roof. Better markets would make independent small entities viable.

Two pressures for the persistence of large farms involve insufficiently developed state functions, and insufficiently developed sources of public revenue. (3) Alexander Yanov has pointed out that attempts to create small efficient autonomous links in the 1960s failed because of jealousy and because of fears of the less hardworking or often, handicapped and aged who received social welfare of various kinds from the state and collective farms. The autonomous links, consisting of small groups of able-bodied workers had no responsibilities to the former group. Now at least collective farm workers have pensions, and a division of labor in which state bodies took on normal public welfare responsibilities, supported by taxation, would do much to reduce this source of resistance to privatization. (4) State and Collective farms also have a great deal of responsibility normally solely governmental in nature, like roadbuilding, schools, housing, and other social infrastructure. Again, a division of production units, no longer responsible to cross subsidize, from governmental body, the latter financed by taxation on the former, including taxation of land rent, would help make smaller production units possible. In this instance, the apparent current process of devolving taxation rights for agricultural land to the local (raion) councils (soviets) will provide a tax basis for future local services.

A list of papers presented at the conference, with discussants, follows. In addition to those named, many others contributed to the discussion in a truly unique and valuable conference.

Papers and Discussants

1. Moral and Efficiency Arguments for the Social Collection of Rent, Mason Gaffney, Econ. Dept., University of California-Riverside; Discussant, C. Lowell Harriss, Columbia U.
2. The Existing Land Tenure System of the Soviet Union, John Parker, Greater London Consultant; Discussant, Robert Ellickson, Yale U.
3. Some Aspects of Leaseholding in the Soviet Union, Alexander Meyendorff, retired, Moscow; Discussant, M. Bronshtein, Tartu University, Estonia.
4. Soviet Agricultural Land Tenure and the Collection of Rent, Elizabeth Clayton, Econ. Dept., U. of Missouri-St. Louis; Discussant, Gene Wunderlich, USDA/ERS.
5. Price Adjustment and the Valuation of Agricultural Land: A View Using Lithuanian Farm Data, Karen Brooks, U. of Minn. and the World Bank; presented and discussed by Robert Dorfman, Harvard U.
6. Conditions that Warrant Limitations on the Sizes of Farms, Albert Berry, Econ. Dept., U. of Toronto; Discussant, Eli Noam, Columbia U.
7. Principles for the Collection of Rent from Exhaustible Natural Resources, Anthony Clunies-Ross, Econ. Dept., University of Strathclyde; Discussant, Frank C. Genovese, Babson College.
8. Practical Principles for Identifying Rent and Wresting it Away from Powerful

Institutional Claimants, Including Government Entities, Gregg Erickson, State of Alaska; Discussant, Kenneth Gray (ERS/USDA).

9. A Simple, Practical Protocol for Assigning Rental Value to Land, Ted Gwartney, Appraiser, First Nationwide Bank; Discussant, M. Manning Cleveland, NYC.
10. A Sophisticated, Market-Based System for Assigning Rental Value to Land, Nicolaus Tideman, Econ. Dept., Virginia Tech; Discussant: Dick Netzer, NYU. Discussant, Richard Ericson, Columbia U.
11. Rent and the Provision of Public Services, William Vickrey, Econ. Dept., Columbia U.
12. Insurance for Premature Obsolescence of Improvements as a Result of Unanticipated Growth, When All Rent is Collected Socially, Steven Cord, Center for Study of Economics; Discussant, Fred Foldvary, George Mason U.■

KENNETH R. GRAY

The Benefits of Immigration

IMMIGRATION should be increased greatly since it is beneficial to the United States. This is the thesis of Julian L. Simon in *The Economic Consequence of Immigration* (Cambridge, MA.: Basil Blackwell, Inc., 1989, $39.95).

Professor Simon examines the economic consequences of immigration and analyses the emotional beliefs that immigration causes unemployment and increases welfare loads. He believes that immigration will continue to be a rich resource as in the past. It will help reduce the dependency burden of the aging U.S. population since most immigrants are in their twenties and thirties. Also, since many bring valuable skills with them, they create new jobs and businesses.

Immigration now is low compared with the past and is based more on nepotism rather than merit. The volume of immigrants could be increased and be based on economic productiveness. "All the U.S. need do to sharply increase the rate of advance in its technology and its industrial productivity is relax its barriers against the immigration of skilled creators of knowledge." His policy suggestions will interest economists, sociologist and demographers.

C.E.G.

Beginnings

The beginnings of all things are both small and weak. Yes, the oak is in the acorn, the giant in the embryo, and the destinies of the world in the fortunes of an individual.

ALEXANDER CAMPBELL
(1788–1866)