

**Private Possession as an Alternative to Rental
and Private Ownership for Agricultural Land
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One of the reasons that the debate is so fierce between the advocates of rental and the advocates of private ownership of agricultural land is that each position has important strengths as well as important weaknesses. This paper argues that there is a third possibility between rental and private ownership that retains the strengths of both while avoiding the weaknesses of both. The third possibility is private possession of land.

I. The Concept of Private Possession of Land

Like private ownership, a system of private possession of land involves titles to land that have no termination date and are freely transferable. Therefore the possessor of land can be confident of receiving the full benefit of any improvements that are made to land. Like rental, a system of private possession of land involves an obligation to make regular payments to the government for the use of land. However, the payment is not for the full rental value of land, but only for the rental value that land would have in an unimproved condition. This collection by the government of the value that is provided by nature and location gives recognition to the idea that land is the common heritage of all generations, and should be available to all generations on the same terms. It insures that prices for titles of possession will correspond only to the cost of improvements, and will therefore not be excessive. It eliminates the profit from land speculation. And it provides a continuing source of government revenue.

II. The Rental Value of Land in an Unimproved Condition

Implementation of a system of private possession of land requires a procedure for determining the rental value that land would have in an unimproved condition. This would be the responsibility of an assessor, whose job would be somewhat similar to that of property tax assessors. However, while property tax assessors specify the sale value of land, the task of the assessor under a system of private possession would be to specify the rental value that land would have in an unimproved condition.

Agricultural land is rarely found in an unimproved condition, except in places that have never been farmed, or have not been farmed for decades. Therefore the task of the assessor of agricultural land would entail making adjustments for any improvements to land such as drainage, irrigation, fencing, fertilization, and removal of stones. From an economic perspective, the return to these improvements is not rent, but rather interest on capital that has been invested. Keeping such returns untaxed ensured that those who possess land will have an incentive to maintain those improvements and make any new improvements that yield adequate returns.

To discover the rental value of agricultural land in an unimproved condition, assessors would monitor land rentals in the vicinity. From an agreed rental price, the assessor would subtract amounts for interest and depreciation on any improvements to the land. What remained would be the rental value of the land in an unimproved condition. However, if the assessor believed that some improvement added less to the rental value of land than its cost as measured by interest and depreciation, then for that improvement he would subtract not its cost, but his estimate of what it added to the rental value of the land.

Because of the unpredictable value of the ruble, it would be necessary to have rent vary with the value of the ruble, as measured by some more stable currency. The Japanese yen, the Swiss franc and the Deutchmark are the most stable international currencies, but people are probably more aware of the value of the ruble in dollars. Any of these could be used. When rent was due, the number of rubles that would be owed would be the number that had the same value in the specified currency as the rent that was assigned at the time of the assignment.

The assessor would specify the manner in which the rent of land varied with soil type, slope, proximity to roads and towns, and any additional factors that seemed to have a systematic influence, other than improvements to the land under consideration. Using such a specification, the assessor would assign a rental value to every parcel of land for which he was responsible. Rent per hectare would vary continuously with natural advantages and location of land. The assessor would be able to explain each assessment as the application of a formula based on observed rentals.

III. The Question of Tax Abatements

The Russian parliament has passed a law specifying that those who start new farms will not be required to pay any taxes for five years. The question of how this affects a system of private possession of land must be addressed. Part of the answer is that payments to the government for the use of land are not taxes, but rather rent, or compensation to society for the use of what belongs to society. The rest of the answer is that it may be appropriate to have an exemption for some specified amount monthly rental value, from the requirement that rent be paid. The rest of this section elaborates on these ideas. A tax is a payment to the government, regulated by law, of what would belong to individuals except that the government has declared that it needs it.

Examples of taxes include excise taxes, sales taxes, income taxes, payroll taxes, value added taxes, inheritance taxes, and property taxes. Some payments to governments are in exchange for goods and services that are provided by government and are not taxes. Examples are transportation fares, telephone bills, water bills, and postage payments. Payments of rent to the government for the value of land in an unimproved condition should also not be regarded as taxes.

This is because the rental value of land in an unimproved condition is not produced by the possessors of land.

There are two sources of the rental value of unimproved land: 1) nature; 2) location value, arising from a) public services such road, parks and transit facilities; and b) private activities that create opportunities for surrounding land. For the rental value that is due to nature, the proper allocation is either to the national government or an equal division among all citizens of the nation, because no one can claim this value by virtue of having produced it. For the rental value that is due to public services, the proper allocation is to the governmental organizations that provide those services. For the rental value that is due to private activities, the proper allocation is to those who undertake those private activities.

In the case of agricultural land, the rental value of unimproved land is due to nature and locational factors. This revenue is properly assigned mainly to the national government. However, in the spirit of sharing the revenue, it would be proper to have an exemption for some specified amount of rental value. Then farmers would pay for the use of land only to the extent that the rental value of their land in an unimproved condition exceeded the exemption. Such payments would not be taxes, but only the allocation of the rent of land to those to whom it should properly go.

IV. Freedom to Transfer Titles of Possession

Proposals for systems of private ownership of land often include a proposal that sales of land be prohibited for some period such as ten years. That such a restriction would be proposed suggests that the advocates of private ownership are aware of the impropriety of large private gains from land speculation. But a temporary ban on sales does not solve the problem of private gains from land speculation. At best, it postpones it. If people are permitted to rent land out, they can profit from this and then later sell the land. And when they do sell it, very large speculative gains can occur. If they are not permitted to rent land out, then the system implies that land cannot be transferred to those who could use it best. Economic efficiency requires that the right to use land be freely transferable. A system of private possession permits free transferability without large speculative gains.

If the assessment process is accurate, then in private sales of titles of land possession, the price that will be agreed voluntarily between the buyer and the seller will be the value of the improvements to that parcel of land. If land prices were observed to depart systematically from this norm, it would be an indication that the assessment process was deficient. Therefore, under a system of private possession of land, it would be appropriate to have no restriction on the right of the possessors of land to sell titles of possession for any price to which a buyer would agree. Such freedom has two important advantages. It makes it possible to

discover whether the assessment process is working properly, and it makes it possible for those who can make the best use of land to obtain possession of land.

V. Market Determination of the Sizes of Farms

When systems of private ownership are discussed, limitations on the sizes of private farms are often proposed. The rationale for such limits is that there is not enough land for everyone to have as much as they want, so no one should be allowed to have an excessive amount. Such a rationale makes sense, however, only if people with much land have a special privilege, while those with little or no land are unfairly deprived. Under a system of private possession, the possession of a large amount of land would not make a person privileged. It means that the possessor would be obliged to pay a proportionately larger amount of rent year after year. And the person with little or no land is not deprived, because he can obtain as much land as he wishes by paying a purchase price corresponding to the value of the improvements to the land, plus a monthly price to the government of the rental value of the land. Therefore, under a system of private possession, it is sensible to have no severe restrictions on the amount of land that a person can possess. Farms will be of whatever sizes are most efficient. Those who are highly capable managers of land will tend to have very large farms. Those who are less capable or less experienced will tend to have smaller farms. If technological advances change the optimal sizes of farms, people would make corresponding changes in the sizes of holdings without any prompting from governments.

VI. The Absence of a Termination Date

Proponents of having the government rent land out on leases generally propose very long leases, often as long as 50 or 100 years. The purpose of having a long lease is to ensure that tenants have the chance to benefit from any improvements they make to the land. But even a distant termination date creates problems with respect to improvements. As the date approaches, the incentive to maintain land diminishes further and further. A set of rules by which leases can be renewed is helpful, but it raises further questions. How is the new rent to be determined? Will it reflect the value of the improvements that the tenant has made? If not, how will they be excluded? A related problem that arises when the government rents land out on leases is the possibility that economic changes will make the agreed rent obsolete. If technological advances lower the market rental value of land, tenants may seek to abandon land because their leases will require them to pay too much. If population growth or other changes raise the market rental value of land, then the low rent of leases will constitute an unjustified windfall for tenants. Leases of short duration reduce the problem of uncertainty regarding the future market rental value of land, but they worsen the problem of lack of incentive to maintain renter-owned improvements.

The system of private possession of land deals with these problems by having no termination date and by providing for regular revision of the rent. The absence of a termination date for possession creates an enduring incentive to maintain existing improvements and invest in new ones that are worthwhile. The regular revision of land rent, under rules specified in advance and designed to identify market rental value, ensures that there will be no incentive to abandon land and no unjust enrichment of tenants.

VII. The Importance of Implementing Other Agricultural Reforms

In order that agricultural land be used most efficiently, it is important that other agricultural reforms be implemented. Farmers should be allowed to grow whatever they want and sell it to whomever they want, including foreigners, on whatever terms are mutually agreed. The Russian government should import food only if the foreign price, plus transportation cost, is less than the domestic price. These measures are necessary to ensure that the best possible use is made of the land and of the efforts of farmers. These measures will also raise the rental value of land. Therefore, if they are going to be implemented, it is important to implement them before the rental value of agricultural land is determined.

VIII. Summary

Private possession of land is a form of land privatization that combines the attractive features of rental and private ownership without their disadvantages. The private possessors of land are entitled to possess and use as much land as they wish for as long as they wish and to transfer it to whomever they wish on whatever terms are mutually agreed. This provides incentives for efficient improvements to land. As a condition for continuing use of land, the private possessors are required to pay its assessed rental value in an unimproved condition to the local government. This keeps the price of titles of possession down to amounts approximating the sale value of improvements, eliminates the profit from land speculation, and provides a source of public revenue. The public collection of the rental value of land gives expression to the idea that land is the common heritage of all generations. The rental value of land would be determined by assessors, who would follow rental agreements and relate the value of each parcel to agreed rental prices of near-by, similar land, adjusted for the contribution of improvements to rental value. Before an effort is made to measure the rental value of agricultural land, there should be agricultural reforms to eliminate all restriction on what farmers grow, who they sell it to, or what prices they receive. And food should not be imported when it is available domestically at a lower price.

Payments for the use of land would be classified not as taxes, but rather as compensation for the use of common resources. Therefore these payments would not be affected by the law specifying that farmers are not required to pay taxes for

five years. There could, however, be an exemption for a modest amount of rental value of land.