

Land rental crisis

THE most effective way to undermine the authority of a government is for the citizen to refuse to pay his taxes: this is civil disobedience that no government can tolerate, if it hopes to survive.

In the USSR, the republics are using the budget to bargain for independence from centralised control by the Communist Party. In the first two months of this year, funds flowing into the coffers in Moscow dropped by 72%.

Without money, the will of the government cannot be enforced over the governed: and that is increasing the pressure on Mikhail Gorbachev, who is torn between the need to liberalise the economy while preserving the political integrity of the Soviet Union.

As the 15 republics insist on the devolution of more power, the dispute is being articulated in terms of the value of land and natural resources. Who owns the gold and the oil? Boris Yeltsin has no doubt that the natural resources of Russia belong to the Russians.

The absence of a consensus on how to redistribute property rights has complicated the

• THE SOVIET empire is crumbling, with the 15 republics arguing over the cash they are supposed to pay into Moscow's coffers. The political row between Mikhail Gorbachev and Russia's leader, Boris Yeltsin, is highlighted by the dispute over the share-out of the rental value of natural resources. FRED HARRISON reports.

budgetary dispute. Gorbachev does not want land sold to private owners, but it now begins to look as though his demand for a referendum on the issue is likely to fall by the wayside.

And on this key issue of property in land, his political challenger, Boris Yeltsin, seems to have no coherent alternative. The Russians want users to have individual access to land, but they regard the concept of private ownership as alien. And they have no theoretical way of resolving what looks at first sight like a complex problem of the legitimate rights of society against the rights of the users of land.

This confusion found further expression over Easter, during the crisis Russian Congress of People's Deputies, which was held to determine Yeltsin's political fate. Premier Ivan Silayev outlined an economic

reform programme that said nothing about breaking up the collective farms and selling off the land.

A COHERENT plan to solve the dispute over budgetary needs and property rights was advanced in London on March 25.

Mikhail Bronshtein, a professor at the University of Tartu, in Estonia, outlined the elements for a solution at the 19th conference of the International Union for Land Value Taxation and Free Trade. His views are being circulated in Moscow, where he is a member of the Soviet Union's Supreme Soviet.

Prof. Bronshtein said that the way in which rental income was owned and distributed formed part of the problem of social conflict. He referred to the current case of price rises. Some disadvantaged areas had to be compensated, and he cited Central Asia, which had received very low prices for its cotton.

When a fund was established to compensate the poorer areas, a dispute arose over the size of the contributions. Russia declared that it had to support its own poor regions.

Said Prof. Bronshtein: "To deal with this problem and get past this impasse, a good idea would be to arrive at a property system of rents whereby we could collect money from one region and distribute them to others".

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EXIT FROM MOSCOW

ON THE subject of urban land problems, Prof. Bronshtein provided an insight into the debate now raging in the Soviet Union.

He reported a discussion held in the presence of the US Ambassador, during which the Vice-Mayor of Moscow declared that "If we collect the maximum value for the land available in Moscow, then the city budget would be in a good standing".

Prof. Bronshtein raised an objection to this view. "I said, 'Not the

maximum, but rather the optimal'. But unfortunately, in fact what we have done is move to a maximisation, because land value, which is usually represented as property value, namely the buildings on the land, have in fact risen 23 times - 2,300% - in one year.

"For that reason business is beginning to leave Moscow. These are the problems that are arising from not having a properly developed theory of rents".

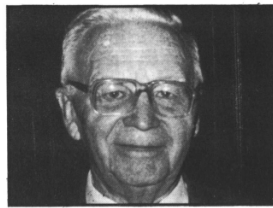
Moscow-based economist who was educated at US universities, interjected during Prof. Bronshtein's speech to suggest an even split of the rental value of land and natural resources between federal governments and the union.

Prof. Bronshtein reacted by saying that the Supreme Soviet had yet to resolve that issue. His attempt at a solution to the problem of what was a fair share-out got him into trouble.

In a parliamentary speech, he suggested that disadvantaged regions ought to be compensated for the economic discrimination that had been practiced against them in the past, but that these areas could not be expected to be compensated for poverty that stemmed from a high birth rate.

"When I said this, half of Parliament got to its feet, saying I was an enemy of Islam," said Prof. Bronshtein.

IN THE PAPER he presented to the conference, Prof. Bronshtein firmly located the dispute



• Alexander Meyendorff

over rental income at the heart of the Soviet crisis.

"The depth of the economic, social and national crisis in the Soviet Union at the end of the '80s and the beginning of the '90s was caused - among other reasons of a more general nature - by the deformation of the system of land and rental relations".

Despite its rich natural resources, the Soviet Union had failed to place sufficient food in the shops.

As a result of the debates of the past two years, the republics as sovereign states declared their intention of retaining the rent of land. But this led to the "war of budgets", when the question of sharing the rent across the union came onto the agenda.

The Russian federation, which owns over 80% of the raw materials which yield the highest rents in the union, created the biggest problems.

"The Russian federation planned to retain for itself the major part of the rent", explained Prof. Bronshtein. "If one takes into account that the Russian Republic ordinarily supplied about half of the receipts of the Union budget and that the military expenses included in the Union budget themselves constitute about 100 billion roubles, the Russian parliament actually deprived the Union of its normal basis for existence.

"Inside the Russian Federation a dangerous situation arose. Declaring their sovereignty and the right to own their natural resources, some Autonomous Republics and territories want to retain for themselves the management of rent, thus depriving the Federation itself of a normal financial basis for its existence.

"If rent is appropriated solely at the places of its origin, some republics will find themselves in an extremely difficult situation. Examples of this are already at hand. A very sharp national conflict arose in the Fergan valley between the Kirghiz and Uzbek populations, the basis of which was an unequal distribution of the better plots of land.

Prof. Bronshtein provided some imaginative insights into how a new approach to rent-sharing could unite the Soviet peoples.

He insisted that a share-out of rental income could soften national and social conflicts. "The rent received from land plots of higher natural productivity must in my opinion, be distributed between the producers and the local and union budgets. The tax system should be structured accordingly.

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Stabilising share-outs

PROF. Bronshtein recognises that there are two sides to the controversy on property rights. The argument that land needs to be privately owned, if the producers are to increase output, is offset by those who maintain that the state can continue to own the land while freeing users to generate an increase in wealth.

But how do you balance these rights into a working system? Prof. Bronshtein - who was exposed to the economics of American social reformer Henry George at a conference in New York last summer, which was funded by the Robert Schalkenbach Foundation - identified the solution in terms of the share-out of rent.

"The problem consists in instituting an equitable rent payment system", he declared.

The need for this solution was urgent, for without such a safeguard, land would become the object of speculation and this would limit production and siphon off capital. "We are already experiencing such a process as the selling prices of village and city structures, which in fact include prices of land, have a tendency to increase rapidly", he disclosed.

In describing the current tax system as chaotic, Prof. Bronshtein concluded with this advice for the USSR: "It would seem reasonable to substitute taxes on land and certain other kinds of property, objectively assessed, for the numerous deduction (taxes) to the Union, Republican and local budgets. This could be a stabilising factor in economic, social and national respects".

'FIXED FOR FAILURE'

FRENZY prevails in the halls and hearing rooms of the 52nd Legislature. The provocateur? Our oldest, most equitable tax - the real property tax.

The property tax is equitable because the same rate is applied, statewide, on the current market value of all land and all improvements whether the use be for single-family residences, apartment/condominiums or for commercial/industrial purposes.

The system is unbiased when it is based on current value - market value. Market forces set the value of any particular site. Neighborhoods exhibit similarities - for example, a downtown, an industrial area, a conglomeration of slums, or a posh neighborhood with guarded gates. Assessments for all occur every one, two or four years, depending on the county. (Thurston has yearly revaluations.)

But tinkering with "the market" by freezing assessed values as of a certain date, or giving exemptions (or "current use" status) to certain property owners is dangerous.

It skews the market. It produces higher taxes for everyone but the favored few. It lowers revenues to any local government pressed against the 106 percent levy lid.

Our current frenzy stems from two proposals last June. One was Gov. Booth Gardner's plan to clamp a lid on assessed valuations of homes worth \$200,000, coupled with higher senior citizen/handicapped exemptions. A second from Sen. Dan McDonald, R-Bellevue, would have based assessments on a five-year running average. And there are others - as many as 15 were proposed even before the session got under way. In the last week of January, the



META HELLER reports from Olympia, Washington State, where legislators propose "tinkering" measures for the property tax.

Senate passed a new McDonald proposal: give counties the option of freezing this year's property valuations at 1989 levels. He calls it a "short-term fix".

But King County Assessor Ruthe Ridder's analysis suggests it would be a long-term problem. King County property owners account for approximately one-half the state's property revenues.

Ridder says moderate-to-low property owners - single-family residences, apartments, condominiums, even a few industrial owners - would pay more. Boeing, for example, would pay \$5 million more.

One the other hand, the more affluent residents with waterfront, wonderful views, or owning other desirable sites would pay less. Two downtown Seattle skyscrapers, which changed hands recently, also would pay less - up to \$700,000 less.

Homeowners in "lukewarm markets" - Federal Way, Auburn, Enumclaw, Highline, South Central Seattle, Skykomish - would pay more. Where is equity for the working class?

The reason tax breaks for some always hurt others is that each year every county, city, special district prepares a budget based on anticipated revenue from the property tax (as well as estimated revenues from the sales tax, licenses and fees). The budget allocation from property revenues must be covered by residents in that county, city, special district. (If some property owners get extraordinary "relief," the rest simply pay more.

Ridder's analysis for Seattle, for example, shows that the 1991 levy rate would have to be increased from \$10.96 per \$1,000 valuation to \$15 to counter the artificially lower "freeze assessments" for some. The cities of Renton and Normandy Park would lose substantial revenue because they are at the 106 percent levy lid. Special districts (also at the lid) would also lose heavily - libraries, medic programs, parks and fire districts.

Our forebearers understood the property tax. Today people seem not to understand. Every assessor who has testified on any of the "property tax relief measures" says these bills will give relief to richer homeowners, raise bills for poorer homeowners, increase rents for non-property owners, and be neutral for most business property owners. Who is listening?

The only revision to the property tax that would bring lower bills to almost everyone, make rents more affordable, and dampen land speculation is one that levies a higher rate on land values (say, 2 1/2 percent) and a lower rate on buildings (say, 1/2 percent). That would promote equity.

No such bill has surfaced in either chamber.

"The problem consists in devising an equitable tax system for redistributing rent that might provide sufficient economic incentives for a more effective use of the best plots of land, as well as covering within certain limits local and national budgetary

needs. This could be a way of increasing the volume of profits and rent that are a source of the growth of individual and public wealth, and of lowering social and national tensions.

"I might point out that the system of rent redistribution by

means of tax rates associated with local, Republican and Union budgets so far have not been worked out scientifically. The search for a solution was begun empirically in the process of solving conflicts and conciliating interests".