Incentive Tax League of Pennsylvania

Dan Sullivan,
western regional director
3243 Parkview Avenue
Pittsburgh, PA 15213
(412) 687-LAND

October 18, 1982

Herb Goldstein
School of Living Land Committee
P.O. Box 327
New Freedom, PA 17349

Dear Herb:

Thank you for writing me about the land trust paper. I would like to say some things in reply to your comments. It is helpful to see just where I need to be more clear.

But first, let me apologize for not getting hold of you about my inability to meet with you. I did have a lot of trouble with logistics and parts of my trip had to be cancelled. I ended up going on busses to Easton and Philadelphia and back from Wilminton, DL. I called a couple of times but there was no answer. When I got home, I was exhausted and I forgot about calling.

On my paper, I had considered the points you referred to, but I had not explained them very well. It was an abbreviated, preliminary sort of paper, and feedback like yours helps me know what to emphasize in a more thorough version.

Your points were that:

1. It allows people to continue to think of land as a commodity.
2. The term "trust" is a misnomer.
3. Rents being low compared to land prices, it may not be attractive to investors.
4. Using ground rent for taxes would further erode potential dividends.

I would like to answer all of these points as clearly as I can. First, though, I want to emphasize that I do not want to compare this with the ideal situation, but only with the alternatives that have been proposed and tried. For the essence of my proposal is that it is an artful compromise whereby private land monopoly patterns are gently eroded.

My proposal does allow people to treat land as a commodity. As a libertarian I want to point out that allowing people to think of land as a commodity is perfectly all right. People should be allowed to think whatever they choose.

My proposal only goes so far as to force landholders to treat land as a commodity with a cost. The problem is that land is not enough like a commodity. Would you buy a tractor or a car or a house and let it sit without care or maintenance for decades hoping to sell it at a profit? Of course the landholders are leaseholders. The investors would still be deriving a profit from the land, which I think is what is troubling you. I must confess that I don't have a workable proposal that gets past that problem. But, at least, the land is not being held back from use. The stockholders give up all control over land use and the leaseholders have to pay too much to want to monopolize trust land.

I want to make an analogy between the current destructive nature of land use patterns in pursuit of profit and another destructive event for ill-gotten gain. It seems that, in colonial times, iron working was a crude industry and nails were very expensive-so much so that whenever a house in the country was left unattended it was susceptable to being burned to the ground so that nails could be stolen from the ashes.

When the homeowner returns and finds his house and his possessions burned to the ground, the value of even the most expensive nails are nothing compared to the destruction of his property.

In the same way, when land is held out of use, the loss of access to the land and the problems of crime, unemployment, inadequate housing, overreliance on technology, etc. are far more devistating than the loss of a portion of the fair market rent.

I would like to point out that in Arden, Fairhope, Bryn Gwylled, and all of the School of Living trusts, the full land rent is not collected, and certainly it is not all used for the betterment of mankind.

There is a vested interest among the leaseholders of these communities in paying as little as possible and in directing all proceeds back to the leaseholders themselves. There is no vested interest in collecting the full rent or in using the proceeds to expand the trust.

The result is, at best, a kind of collectivized private property, where the leaseholders as individuals rent from the leaseholders as a collective-a private landowning collective.

In Arden and Fairhope, where the rent is kept at the minimum level necessary to defray civic expenses, the pattern is even more like that of traditional, individual profiting off of land holding. Leases in these two communities, I am told, actually sell for more than do clear deed titles in similar, adjacent communities.

There is a way that the community, as a political entity, can dispossess the stockholders of more of the land rent. Note page three, paragraph three.

"The rents are collected (by an agent of the corporation) and the costs of administering the leases are deducted. <u>Also, all property taxes accruing to land are deducted.</u>"

If the community collects more of the land rent as taxes, then a smaller proportion of the land rent will go to the investment corporation. This, of course, is something <u>any</u> community can do to <u>any</u> landholders corporation if:

1. It is willing to do the same to all landholdings within its jurisdiction.
2. It gets enabling authority from the state.
3. Its leaders have enough moxie.

If my wildest dreams come true and the private land trust becomes a dominant landholding model in a region, then the landowners, as stockholders, will lose all connection and all legal control over land use patterns. When this time comes, the leaseholders will be far freer to tax the rents out from under the stockholders.

It will only be respect for the stockholders' vision in instituting this model and the sense of honoring the notion that "a deal's a deal" which will cause the citizens to leave something for the stockholders. I believe that, if this community is really successful, that there will be more wealth and more leisure to go around, and so people may be surprisingly magnanimous about sharing.

This model is, by the way, a trust in the legal sense of the word. It is not completely true to the School of Living concept of a trust, simply because the direct beneficiaries of the trust are stockholders, and not humanity itself.

A trust is simply a device whereby property is held in the custody of an agent that manages it. The beneficiary has no control over the property, but collects whatever net profits accrue from the trust.

Examples are trust funds for minors, and "blind trusts" for public officials who must not be aware of where their personal interests lie. People who contribute to the Henry George School or any other foundation sometimes put their endowment in a trust fund, so that the foundation can collect revenue in perpetuity but cannot blow all the money in a rush.

In the private investment land trust, the land is owned by the investment corporation, but it is held in an escrow trust which cannot be liquidated or transferred without mutual agreement of the stockholders' corporation and the leaseholders' association. (Page 2, paragraph 5 makes a very brief reference to this point.)

The trust devise is central to the goal of this proposal. As in the trust examples mentioned above, the trust executors are given control of the property because they can manage it more effectively than the beneficiaries themselves. In this case the trust is managed by a market dynamic between the rental agent, which has the limited function of assessing and collecting fair rents, and the leaseholders, who have both the opportunity and responsibility of making their interactions with their properties worthy of the rents they pay. The only discretionary powers the stockholders have are: 1. when and where to purchase additional lands to enter the trust, 2. how to spend whatever portion of the rent is left to them, and 3. to assure that the leaseholders and the trust agency are complying with their contractual arrangements.

A corollary to this paper, which I have not really developed, is that the discretionary powers of large landholders-particularly corporations-under current landholding patterns-diminish the productivity potential of the land so much that the corporations fail to benefit from even a share of what could be had by opening land up to potential users.

Another point I wish to make is that there is no requirement that the profits of all the stock have to fall into private hands. In addition to the pure investor, I see other possibilities as well, from altruistic investors, particularly of the Georgist Persuasion. I'll save the most purely nonprofit ones for last on this list.

1. An investor could profit during his lifetime and then leave his holdings to a non-profit organization, particularly one which would advance the cause of Georgism or of land stewardship. (Examples appear in this list.)
2. A benefactor could buy stock and immediatly donate it to such an organization.
3. The organizations themselves, which currently hold stocks in companies that monopolize land and

resources, could sell these assets and invest in land trust.

4. Stocks could be put into spin-off trusts and thier proceeds could be earmarked for purposes such as:

   a. educating residents in the trust community about Georgist economics, or

   b. providing additional benefits for the community by supplementing the community's contractual share of the rent, or

   c. promoting the land trust to outsiders so that its advantages can be appreciated and its model copied or improved upon, or

   d. purchasing additional land to be added to the trust in exchange for additional stock.

This last option, I think, has the best potential for expanding the land trust concept. As the land-purchasing trust buys land and enters it into the central trust, new stock is issued and the land-purchasing trust outgrows the stockholders who fail to reinvest their profits.

What discretionary powers these non-profit trusts would have has to be studies, as does the question of who would manage and oversee these trusts. I have some innovative ideals in this regard, but they have to do more with political models than economic models, so I will refrain from deliniating them here. This paper is long enough already.

The point of all of these options is that the land trust will not work unless the full rent is collected. If there is no vested interest in collecting the rent, the vested interest of the leaseholders in not paying will prevail, and the trust community will revert to a condition of semi-private property. The administrators of the trust must be responsible to persons with either an economic, ideological, or strong civic interest in seeing the rent collected. If the value of the rent is to be used for the common good, a vehicle must be designed to properly represent the common good, and that is no small feat.

You correctly point out that the selling price of land is currently too high in comparison to the rents it is capable of generating.* What this means, from an investors point of view, is that now is not a good time to buy land. Now is the time to unload whatever land holdings you can on other people who are either dumber than you or more desperate for land.

The land market is like this before every depression, but it is entirely different after a depression. People with liquid assets (i.e. loose cash or good credit) can pick up land at a very low price at those times. From 1940 to 1960, people could buy a house with a full mortgage and use the rents to pay it off. As both the selling price and interest rates outpaced rentals, this became impossible in the seventies, just as it had in the twenties.

This situation might present an obstacle to the idea of buying up land for the trust. A good tactic could be to collect as much money as possible over a period of five years or so, and then buy land. I expect there will be a land price crash soon. So many people who paid top dollar for land at high interest rates are now unemployed and unable to maintain their mortgages. The banks may even have enough repossessed properties on their hands to be facing a real problem.

Another way of looking at this is that we don't necessarily have to start with money and go out and buy land. There are lots of real estate investors who are sitting on idle land already. If these people would convert thier land into stock equity in the trust, the only money we would need would be for the costs of subdivision and of promoting and administering the leasing operations for an initial period.

This method has practical benefits because these landholders are currently unable to sell their land at what they consider to be a fair price, and because they do not have the ability or inclination to rent the land out themselves.

The land trust will collect rent for them, and they can liquidate their holdings by selling their stock-without disrupting land use patterns.

The question of adequacy of dividends under the land trust model gets us into an interesting discussion. Several neo-Georgists, including Steve Cord and Harry Pollard, have advanced the position that the net return to landowners may be <u>higher</u> under a land tax than under the current system of taxation, especially under a local land tax where the rest of the world is still taxing their people helter skelter.

Why? One reason is that productive, hard working people who are assets to the community are willing to pay more to live where there are no wage taxes, sales taxes, etc. This translates into a higher demand for land by these people and, therefore , a higher rent. Another advantage that increases demand for land is the knowledge that there will never be slumlording and speculation in this community. People will be willing to pay more to settle in a neighborhood if they know it will not be infected with blight.

Essentially, what I am saying, is that there is a difference in the total value of a community that is run right and one that is run wrong.

Henry George makes this point well in Progress and Poverty in the chapter "Effects on the Production of Wealth." On page 936 he states,

> "Well may the community leave to the individual producer all that prompts him to exertion; well may it let the laborer have the full reward of his labor, and the capitalist the full return of his capital. For the more that labor and capital produce, the greater grows the common wealth in which all may share. And in the value or rent of land is this general gain expressed in a definate form."

If the landlord can prosper by taking a smaller slice of a larger pie, then labor and capital will prosper all the more by getting a larger slice of a larger pie.

My hopes are that, although the corporation will only get 50% of the rent for its own direct benefit, (25% in dividends and 25%in capital gains due to reinvestment of the expansion funds), that the rent will increase rapidly as the community develops into a desirable place. Then 50% of the improved rent will be far greater than 100% of what the landowner could have rented it for in the traditional manner.

This land trust is an ambitious undertaking and there will be lots of questions from lots of perspectives. I hope I have answered some of your questions and I expect I will have generated some new ones.

I think your questions are shared by many people who view land tenure as you do. I would like to share this letter with Mark Sullivan and Bob Clancy of the Council of Georgist Organizations, Mildred Loomis, Artie Yeatman, Steve Cord, Harry Pollard and Mike Curtis.

Please share any comments you have with me.

Sincerely,

Dan Sullivan

Dan Sullivan

DS/fp

* Footnotes

Your comment on rents being only 2-3% of market price in some areas and 15% in parts of New England is very interesting. New England localities, more than other parts of the country, tend to rely more on the property tax, which, of course means they also rely more on land tax than places that tax sales, income, etc. An important claim of ours is that land tax keeps the selling price of land tied to its actual rental value, while untaxed land can be subject to speculative pressures that can price it far abouve what the current rental market suggests.

If you have any hard information that we can use to link a high property tax rate to a low price-to-rent ratio, it would be very helpful to the Georgist movement.

Also, perhaps we should focus our interest in land to areas where the price/rental relationship is most favorable.