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(New references are indicated by [square brackets]. Please excuse the politically incorrect masculine gender and other dated references of 1976)

LAND LEASES WITHOUT LANDLORDS

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Presented at 12.30 pm Tuesday, June 8th, Main Hall Hanger 6

U.N. Habitat Forum, Vancouver, May 31st to June 11th, 1976.

Abstract of Paper

The paper recommends that State or Capitalistic Landlords be replaced with collective ownership and control of non-owner occupied dwellings in human settlements, with the entitlements of each resident in the co-operatively owned property being determined by rules established by the community.

Problems in owning and controlling human settlements are bound to arise wherever developing and less developed countries adopt the methods of ownership and control currently used in more advanced economics. A novel tenure system is described for reducing these problems by motivating and harnessing man's social, territorial and possessive instincts for the betterment of the community.

Alienation of residents from their habitat is an all too frequent problem in "advanced societies", no matter if the landlord is a capitalist of the State. Residents without ownership and control of their habitats are likely to be disenfranchised from participating in the management or structuring either their visible or invisible environments.

The paper argues that the invisible structures of human settlement - economic, social and local government - need to be planned and integrated into the design and location of the visible, physical structures. With proper planning and design the integration of both types of structure would

provide an interdependent, reinforcing influence for maintaining and enhancing both the visible and invisible fabric of society.

The new property ownership and control rules proposed in the paper could be introduced into countries with advanced socialistic or capitalistic economies, through an evolutionary process. In developing countries it would provide an evolutionary method for land reform. Specific examples of how these rules can be applied in advanced economies, with no changes in existing legislation, are illustrated by economic models based on commercially prepared feasibilities studies for urban growth areas, urban renewal areas and isolated mining communities.

The new rules are designed to preserve and link both private and public property interests and values by creating a duplex title system. The aggregate result of such a system would be to form a town or suburban co-operative, or "Land Bank". The system would eliminate absentee or corporate landlords and allow all residents to become part owners. The economic value of owning public property would accrue to tenants, - squatters and private property owners alike, according to how they contribute toward creating new economic value in the community's assets from their individual needs. New values created by users would flow back to them instead of providing windfall gains to owners.

The invisible structures are designed to allocate automatically, in negotiable form the new values created by the demand for tenure over social assets according to the rules determined by the community. The automatic distribution would be activated by both economic and non-economic (tenure) force's and signals. Tenure forces from competition for territory, possession, power; status and influence reinforce economic forces created by competition for value. The invisible structures are designed to respond not only to economic price signals but also to non-economic signals created by residents voting with their feet – through changing their residence – their hands, or by other actions.

Town co-operatives provide a fundamental social and local government building block for creating a new economic order. The other building blocks created from new ways for owning enterprises and natural resources are described in the author's book, *Democratising the Wealth of Nations*. The paper explains how the new tenure systems proposed for owning enterprises and resources are symbiotic and self-reinforcing with the operation of land leases without landlords.

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Appendix:

I Co-operatively Owned Land Banks

l. Most land tenure systems in contemporary human settlements are inconsistent with the maintenance of either their physical improvements or with social equity. In Moscow, the maintenance of apartment buildings has become so expensive for the State that they are now being sold to their occupants an easy capitalistic terms. While this will eliminate the State as a landlord and, reduce the alienation of the inhabitants from their homes, it would introduce other problems. New York City provides a good example of how private ownership can produce alienation of both the workforce and the residents from the property they occupy. This alienation is generating the mutually reinforcing problems of economic and physical disintegration of one of the world's greatest human settlements.

2. To ameliorate the more extreme problems of either state or private landlords, it is proposed that ta land tenure system be adopted which creates land leases or “strata titles” without a landlord. Residents becoming joint owners through a town co-operative, or what is also referred to as a co-operative Land Bank achieve this.

3. The co-operative tenure concept could have universal applicability in both urban and rural situations. It is presented not just as a more efficient and equitable method for holding property rights in land, but as a means of achieving land reform. Its ability to facilitate land reform for either the rural share farmer or the urban squatter is through the creation of a duplex or double property rights of land ownership and use. One title is designed to capture the economic values of use and the other of ownership. The types of value are, of course, closely inter-related and can become identical according to how we define the rights of use and ownership. The objective of co-operative tenure is to provide an institutional framework for allowing economic values to flow between landowners and users according to rules decided by the community. The duplex title system also provides a framework to institutionalise political and social conflicts arising from the different interests of landowners and users.

II. Outline of Structure

4. While all economic values in land arise from its use, the value of its use nay be very much dependent upon the investment made by the owner in its development for either agricultural or urban purposes. The owner expects a good incentive and fair return on his invested capital. The user does not want to be exploited in paying excessive rents for his house, farm, or other improvements. The co-operative duplex tenure system not only allows economic values to flow between users and owners, but also makes all users part owners. By pooling the economic interests between users and owners, a financial partnership is created to defuse the more extreme conflicts of interests-between users and owners who typically represent respectively labour and capital.

5. The two basic types, of land titles created by cooperative tenure are:

(i) An individual specific and exclusive "strata” title (or perpetual lease) to a particular volume of space and its contents;

(ii) An undivided pro rata interest in the title of all the underlying value of the land and any improvements over which there is not a specific title.

The principle of duplex titles frill commonly be found in developed countries - for apartment houses. They may be referred to as a condominium, company, or strata title system. The specific, or "strata” title, represents rights to the volume of space occupied by a specific apartment and the other title a share in all the common land area improvements, such as the garage, passageway, elevators and air conditioning, etc.

6. A distinctive feature of an urban Co-operative Land Bank, which would differentiate it from other duplex title systems, would be its size. Ideally, the area of land owned by an urban co-operative would be a unit of local government, so that it could provide the basic building block of

local and/or regional government. The board of management of the co-operative Land Bank, could then become the local town shire, or Municipal council. Alternatively, the Land Bank could represent a division of local government such as a Ward or Borough.

7. A Land Bank could be described as the original concept of a corporation, which was developed in 16th-century England as a body politic to further the administration of towns and municipalities. The Sovereign facilitated the development of local government by delegating his authority through a Royal Charter. The charter created a body corporate, through which the powers of local government could be exercised by a body politic. The Corporation of London was created by this means and for these reasons. Commercial enterprises developed from the charters granted for the management of trading colonies in East India and Hudson Bay. Although the commercial development of the body corporate introduced the concept of obtaining economic value through shares, this facility was not introduced into the modern development of local government bodies. The Land Bank concept would rectify this situation.

8. Because an urban co-operative combines the features of a condominium, local government body, and a Real Estate Investment Trust (R.E.I.T.), it would have a number of distinctive features. Only real persons (not corporations, institutions, or government bodies) would be allowed to hold either strata titles or shares. Corporations, institutions, governments and their agencies would only be able to obtain leases from strata title-holders or the co-operative for a time period less than 50 years. This would allow any residual values in improvements made by such organisations to revert to individuals on the termination of the lease. Only shareholders could vote in elections to appoint the Board of Management. As in generally adopted in co-operative societies or companies, the voting power of all owner-occupiers of strata titles would be equal, no matter how many shares they held. Every strata title would have allocated shares according to some socially accepted formula. For example, the number of shares associated with strata title could be according to the pro rata share of the land occupied.

9. Shares in a Land Bank could only be brought or sold by the bank itself. Like any unlisted mutual fund or real estate trusts, the bank would publish daily its buying and selling price. The share price would be calculated by dividing the total value of all assets owned by the bank by the numbers of shares on issue. Although the total area of the Land Bank was fixed, the total number of shares on issue could change according to the shares held by the bank itself. The price established for the shares could be crosschecked against their market value by noting any discounts or premiums on the replacement value of strata title sales.

10. All strata title sales would be freely negotiable by private treaty between willing buyers and sellers with the provision that:

(i) The buyer purchased from the Bank the pro-rata number of shares related to the strata title;

(ii) The seller had his related shareholding redeemed by the Bank;

The vendor might, however, suffer a discount on redemption. For the situation when all shares were distributed to strata title-holders without cost, as in the example of Appendix 4, the discount reduced from 100 percent to zero over a ten-year period. The economic value which a resident was allowed to capture on his departure being related to his contributions to building up demand values for ownership and use of the Land Bank's realty.

11. The need and basis for 'establishing a discount on redemption would vary according to situations, the purpose being to provide incentives to those contributing to the creation of new economic values, but to do so in a way so that justice and equity are maintained in the Distribution of value. The distributive credo proposed for land banks and the other symbiotic structures[1] of the new economic order, which they would create, is:

[1] These structures are the Employee Stock Ownership Plan (ESOP); Ownership Transfer Corporation (OTC); and the Producer Consumer Co-operatives (PCC) described in *Democratising the Wealth of Nations* by Shann Turnbull, 1975, The Company Directors Association of Australia Limited. [http://cog.kent.edu/lib/TurnbullBook/TurnbullBook.htm]

From each according to his interest;
To each according to his contributions,
Provided the basic needs of all are fulfilled.

III Principles of Operation

12. The very foundations of the Proposed near economic order are predicated upon the interpretation of the word "contribution". In orthodox economics all contribution to economic values is attributed to the productive effort of labour. In the new economic order and the new economic paradigm[2] required to analyse its operation, the contribution, made by consumers and users in. creating economic values is also recognised.

13. In assets with long economic lives, such as natural resources, land and buildings, increasing demand pressures for their use can create increments in value or capital, gains. As owners do not create the new increments in value, they are commonly referred to as "unearned" or “windfall" gains. For reasons that are indicated in Appendix 1, orthodox economic theory provides an unsatisfactory basis for analysing these values. The people responsible for creating the new values are clearly the users or would be users rather than the owners. The new increments in values created in ownership should then accrue to the users rather than the owners. The Land Bank and the other structures proposed for a new economic order can achieve just this result. This is their unique attribute. It is ital to their ability to defuse and harmonise conflicts between users and owners.

14. Traditionally, taxation has been used to seek distributive justice and equity when capital gains, windfall profits, or unearned increments occur. This is a negative approach like state ownership. It takes away economic value from the owners, but does not necessarily provide any new value to the users. The Land Bank and the other structures of the new economic order which is referred to as Social Capitalism removes the need to seek justice and equity through state ownership. The new economic paradigm in Appendix I, and the concept of financial synergy explained in Appendix II clearly reveals that many forms of institutional ownership of negotiable assets can severely restrict the aggregate economic independence of all citizens. Economic independence being defined as the ability of individuals to obtain discretionary cashflows needed for their survival, security and enjoyment without work or state welfare. The process by which aggregate discretionary cashflows and total negotiable values are increased is referred to as financial synergy. The concept is explained in Appendix II, which provides specific examples of how and why Land Banks can create substantial new sources of discretionary cashflows and economic value. The concept of financial synergy also helps to explain the regressive nature of using taxation to seek equity and justice when capital gains arise.

15. The special ability of the Land Bank to allow a flow of value from users to owners, according to the contributions made to new value by the users is achieved through the issue of new shares to users. As only real persons can hold shares, and only residents can receive shares, commercial and industrial organisations are excluded from being owners of either shares or strata titles. There are two reasons for this:

(i) Unrealised capital gains have little utility for commercial organisations and to the extent that they do, they distort the economic rationale for their survival and growth of the enterprise;

(ii) The capture of capital gains by organisations will usually reduce the aggregate discretionary cash flows and economic values held by individuals. A basic presumption of the new economic order of Social Capitalism is that society should be designed to serve individuals, not things or concepts like a “body corporate”, be they commercial or political.

[2] The proposed new paradigm for economics is outlined in Appendix 1, New Foundations for Economics.

16. The basis for making new shares issues would need to be designed according to the situation. One simple basis would be for the shares associated with any specific occupied area to be issued to the tenant/squatter as a pro-rata function of a time period not exceeding, say, fifty years. The shares issued could be balanced by redemption of the shares held by any non-resident owners of the occupied area. If there were no owner, then the shares associated with the specific area occupied would already be held by the Land Bank itself. A crucial requirement of the share issue, no matter what basis is used, is that the occupier should obtain voting rights. It is through this feature that the Land Bank can provide an institutional framework for providing checks, balance, and trade-offs between owner-occupied and tenant-occupied strata titles.

17. While Land Banks pools the interest of strata title owner-occupiers and no-owner occupiers; there will be an ever-changing population of people who are more sympathetic to the point of view of one type of the other. Their relative voting strength will determine the Board of Management, which – in turn – will determine which type of residents will obtain the most sympathetic treatment. If the gains obtained by owner-occupiers make it too difficult for people to become owners-occupiers of strata titles, then the number and voting strength of this class of person would decline, allowing the election of a Board of Management sympathetic to non-owner occupiers. If the advantages obtained by non-owner occupiers became excessive, and produced disincentives for owners to maintain or construct new improvements for non-owner occupiers and/or the number of owner occupiers increased, because of decreasing value of the improvements made this possible, then management would be elected, sympathetic to the needs of strata title owners. With proper design and integration of the economic, political and tenure structures, an equilibrium position should automatically and continuously be achieved. The equilibrium position could change according to the age and character of either the physical improvements or their residents.

18. A vital feature of co-operative Land Banks is that they provide a dynamic system of property rights which is both sensitive to change and can promote change. As progress is predicated upon change, Land Banks provide a way to institutionalise progress. The historical anachronisms found in property rights and privileges can be avoided. The dynamic feedback mechanism of Land Banks relies on the non-economic forces and signals of tenure. There appears little or no formal study of tenure mechanisms. The study of tenure systems is a missing science, a science, which will need to be developed if the new structures of Social Capitalism are to be properly designed and managed for specific situations. A Land Bank provides a basis for explaining some elements of tenure mechanisms and their vital importance in designing the invisible structures of society.

19. While economic forces are created by human drives for monetary values; tenures are also created by human drives for non-monetary rewards, such as power, status and influence. Property rights of ownership, control, and use are but further examples of non-monetary rewards creating tenure forces. The opportunity to obtain economic value is communicated (signalled) by prices. The opportunity to obtain rewards of tenure is dependent upon a variety of signals depending upon the character of the reward sought or provided. Voting is one form of signalling approval for a person to obtain tenure on, say, the Land Bank Board of Management. Such tenure providing various satisfaction or rewards of recognition, influence, etc. Competition for tenure positions is analogous to market competition for economic values. Voting is a formal, explicit and positive method of citizens signalling their preferences. Analogous to the economic process of establishing buying and selling prices. Many of the more important tenure signals are informal, implicit and negative. This occurs when a person moves his place of residence because he finds it is no longer desirable. Such action is referred to as “voting with one’s feet”. The decisions to switch off/change a radio or television programme, or use an alternative form of transport provides examples where explicit, formal sample polls are taken to provide positive feedback on tenure preferences.

20. The problem with tenure forces and signals is that they are as diverse as human drives and needs. The reasons why people stand for elected office, move their place of residence, desire a certain type of house, and are far more complex than the economic forces. A fact that provides considerable challenges to urban planners who attempt to identify, quantify and analyse tenure preferences by field surveys. In any event, such preferences continually change. The need for explicit surveys could be reduced to the extent that the invisible structures of society are designed to be sensitive and adjust automatically to the aggregate preferences of its citizens. The mechanisms built into the Land Bank concept provide this opportunity to some degree. The other microstructures proposed for a new economic order are also dynamic structures. Change being

programmed into their operation likes a Land Bank by making the property rights of various classes of tenure holders (owners/controllers/users) a function of time.

IV Current Applications

21. A Land Bank is but a set of rules for owning property. Private property ownership generally permits complete discretion to the owner on how he structures lesser interest in his property. The design, creation and operation of Land Banks should be generally feasible without any special enabling legislation in those countries, which allow private property ownership. However, in countries, which allow private ownership, there may not be sufficient economic incentive of landowners to initiate the formation of a co-operative Land Bank. It is not that a co-operative land tenure system provides insufficient economic incentive, but that the traditional private ownership systems provide economic rewards in excess of incentive. This is a fundamental problem of most tenure systems in contemporary capitalism. It exists with corporate tenure and in the generally utilised ownership rules of natural resources. Alternative ownership rules for corporations and natural resources are proposed in *Democratising the Wealth of Nations*[3]

22. The initiative for creating a land co-operative would generally rest with Governments. However, there are some particular situations where there are very persuasive substantial advantages for private landowners to initiate the establishment of an urban co-operative. Squatter landlords seeking a method of liquidation their land holding on a socially acceptable basis provides such an example. Another is isolated project communities' constructed, owned and managed by a commercial enterprise. Such situations are commonly found in Australia where the town co-operative tenure system is being considered for a number of mining towns. The biggest community being the largest town in a Shire which has an area greater than England. It is being believed that this is the larges local government area in the world. The reasons and methods for converting the tenure system of this town to the duplex co-operative concept are explained in Appendix 3. This example also provides a practical illustration of the very substantial real economic benefits that can be obtained from the financial synergy released by the efficient design of tenure systems.

23. There are tow other situations in Australia where the duplex co-operative tenure system is being proposed by local government bodies. One situation is in new urban growth areas created on the perimeter of major cities. This is the situation for which the concept was originally developed by the author for a private property developer seeking a politically attractive basis for obtaining permission to have his rural land rezoned for urban use. The rezoning, which changes the use of land, can result in very substantial windfall gains in values. Gains which, in some situations, the owners are prepared to forego to some extent when they have high and/or urgent needs for liquidity and/or some profit! An analysis of the gains available and their distribution in new urban growth areas with various land tenure systems is provided in Appendix 4. The values quoted are based on actual examples existing near Sydney in 1972. Appendix IV is based on evidence submitted on July 15, 1974 to the Australian Government Commission of Inquiry into land tenures to support arguments for the general adoption of co-operative tenure systems. The concept was recommended for adoption in the joint Australian and Western Australian Government report[4] on the development of a mining industrial complex in the Pilbara region of North Western Australia.

24. The other situation in Australia where co-operative tenure is being proposed by a local Government body is for an urban renewal project. The project involves an area of land, which represents about 20 percent of the Fremantle Municipality. Fremantle is the Port of Perth and the residents of the urban renewal area are low-income fishermen and port workers. The motivation for adopting the co-operative tenure system is to allow the town income residents to remain in the area after land values have increased as a result of the renewal programme. It also allows the present residents who re-locate in the area to capture in negotiable form, their share of the new values created.

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[3] See Shann Turnbull "Corporate Wealth Concentrations", Chapter 7, page 31 of *Democratising the Wealth of Nations*, Company Directors Association of Australia Limited, 1975. [http://cog.kent.edu/lib/TurnbullBook/TurnbullBook.htm]

[4] *The Pilbara Study* published by the Australian and Western Australian Governments, Australian Government Printing Office 1974. Refer to Section 7.5.4 on House Ownership Appendix 8, Section 2-3, page 142 – Home Ownership being the Pilbara town planning study prepared April 30, 1974, by Technic 10 (W.A.) Pty. Ltd., and Crooks Mitchell Peacock Stewart Pty. Ltd.

25. The urban co-operative provides a number of other substantial economic and social advantages, which will become evident from considering the detail arrangements. The specific arrangement for urban co-operatives needs to be specially designed for the requirements of each particular precinct. The arrangements proposed below are not those that may necessarily be adopted in the North Fremantle urban renewal project. They are presented as a basis for illustrating the flexibility and operation of an urban co-operative, both for introducing changes in tenure systems and providing a more attractive basis for distributing land values.

V. Financing Development

26. The legal structure of a co-operative Land Bank could take a number of forms such as a co-operative, trust, or Ordinary Corporation. Assuming that a corporate form is used, then an urban renewal programme would be initiated by providing its shares could as an alternative consideration for cash in the resumption of land. The shares could be provided as a free option for those landowners that wanted to participate in the appreciation of land values arising from the development process, rather than receiving cash at the unimproved value. The extent to which vendors participated in new values would need to be controlled so that they did not receive gains in excess of incentive. This would be facilitated by issuing a special class of shares as an alternative consideration for cash in the resumption of land. The shares could be provided as a free option for those landowners that wanted to participate in the appreciation of land values. The extent to which vendors participated in new values would need to be controlled so that they did not receive gins in excess of incentive. This would be facilitated by issuing a special class of redeemable of ‘C’ class share to land owners who were not real persons or who were real persons but did not wish to reside in the area after its renewal. The ‘C’ class shares would have no voting rights, and be redeemable into cash or Land Bank deposits after the renewal process. Their dividend and/or redemption price being established on such a basis that the ‘C’ class shares provided a competitive alternative to pre-development resumption cash values such as that may be determined by the valuation procedures used in renewal situations.

27. Residents who resided in the area to be redeveloped and who wished to continue living in the area would be issued ‘B’ class shares. The issue of ‘B’ shares would need to be made on a formula, which recognised the residents past commitment to the area as a homeowner or tenant. The ‘B’ shares would be convertible into duplex titles after the renewal process. One title being an ‘A’ or ordinary share of the co-operative, and the other being an equity in a specific strata title as may be selected by the ‘B; class shareholder. The strata titles representing ownership of specific improvements such as a town house or apartment created by the renewal programme. The ‘B’ class shares and the ordinary shares into which they converted would obtain all voting rights, and residual values created by the development process. It is by this means that the original low-income residents can capture sufficient new increments in value to continue living in the area. Indeed, it could well be possible that they could obtain ownership of new improved homes considerably in excess of the value of their old homes without cost.

28. One very substantial advantage in the land acquisition and consolidation process made possible with a land co-operative is that is reduces the need for cash. Indeed, it provides a basis for a government development agency to avoid the need to contribute cash for either the land purchase or development. The cash requirements being arranged by the co-operative itself on the same basis as any independent commercial enterprise.

29. Both the ‘B’ and ‘C’ class shares are only required as a means of getting the co-operative established. They illustrate the flexibility of the concept and how co-operative land tenure systems could be used in land reform. The ‘B’ and ‘C’ class shares facilitating the redistribution of values between owners and users. The proportion of ‘C’ class shares issued to a landowner would be in the same proportion that his land had before its change in use or reform to the total value of all land being acquired by the co-operative. All landowners would thus be treated on a similar basis. Owner-occupiers who were real persons would, in addition, receive ‘B’ class shares, which would also be received by non-owner occupiers. These shares being issued say, in proportion to the area occupied with a premium issue in proportion to the time period that the area had been occupied. The ‘C’ class shares would allow owners to obtain fair value for their property and the ‘B’ class shares would distribute some of the new values created by development according to the residents’ previous contribution to land use. When the density of residents increases with redevelopment, then a portion of the new values created by the new future users could be reserved for them. The free

issue of ordinary shares would achieve this after the redevelopment process — when all 'B' shares had been converted to ordinary shares.

30. In new urban growth areas (considered in Appendix 4), all new increments in value would accrue to the future users. In many situations, where there was been rapid urban growth, the new values so created would provide sufficient collateral or equity to allow the cost of land acquisition, holding, servicing and management to be self-financing on a commercial basis. The pro-rata shares obtained by homebuyers, who contained their equity in the new values, could then be distributed without cost. The buyer of new homes in such a co-operative would only need to obtain cash for construction cost of his house. As construction costs of houses are often the same value as the serviced developed land, which they occupy, the out-of-pocket cost of new housing is effectively halved. In these situations, which are commonly found in many countries of the world where there is rapid urban growth, the co-operative Land Bank tenure system would thus provide half-price housing. The political appeal of the concept should be irresistible to governments where political financial support is not dependent on land speculators.

31. The possibility of an urban renewal co-operative being self-financing would be depend upon such factors as:

(i) The degree to which property owners accept shares and other securities instead of cash in exchange for their property;

(ii) The need to pay out in cash any mortgages existing at the time of acquisition. Mortgages could be transferred to the co-operative or converted into secured deposits of the Bank. Alternatively, some mortgages might be transferred by the resident to help him finance his new improved home. This would be practical in many situations as the new home could be constructed without requiring demolition of the old residence;

(iii) The amount of money which the co-operative can obtain from using the new value increments of development as collateral;

(iv) The degree to which residents in the new development purchase, rather than rent their homes.

VI <u>Operating Modalities</u>

32. There also exists the possibility that instead of residents paying rates to their local government body, which would now be the co-operative, they could receive dividends. This is explicitly provided for as an operating cost, in the cashflow analysis for the project community co-operative presented in Appendix 3. The ability of a co-operative Land Bank to yield cash dividends would depend upon the nature and concentration of commercial and other institutions in its precincts. Such organisation being required to pay rent at market values for the area they occupied. This would need to apply to any non-commercial institution, such as government agencies, learning and welfare organisations that served the interest of the citizens living in the areas outside the precincts of the co-operative. Alternatively, or in addition to the payment of rents and rates, commercial organisations might also contribute[5] part of their free cashflow.

33. An important additional source of cashflow for a co-operative might arise from the residual rental values of leasehold improvements. As only real persons can own strata titles and the associated collective equity of any non-owner occupier strata title transfers from the owner over time, it is likely that all improvements such as shopping centres, office buildings and factories will be constructed on land leased directly from the co-operative. As all such commercial leases would be limited to 50years, any equity cash flow returns to the builder and user of the improvements would revert to the co-operative. These cashflows could be very substantial indeed, as the experience of many 50 year-old development-project will reveal. Investors on limited life leases have constructed many of the major buildings in London and New York.

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[5] The reasons why commercial organisations could <u>seek</u> such an arrangement are describe in Chapter 12 – 'Novel Methods for sharing New Wealth', Page 63 of *Democratising the Wealth of Nations*, Op. Cit.

34. The limited time period for obtaining equity returns is not a major inhibiting factor to investors as many major projects in mining, industry and real estate reveal. A quick return of the money invested with a quick profit in a limited period is always preferable for commercial enterprises, then a slow return of the investment even if the profit may continue indefinitely. This is only common sense given the uncertainties of the future and the less uncertain alternative investment opportunities available for quick cashflow returns. The cashflow preference of individuals is complementary, in that individuals will trade off immediate quick consumption of cash so as to provide for their old age and children. Financial synergy is therefore available by meshing the time preference for cashflows between commercial organisations and individuals or a community of individuals (and their families) as represented by a co-operative Land Bank. The cashflows, which might otherwise provide returns to investors in excess of incentive, can be diverted to individuals. This additional cashflow provided to individuals in a co-operative Land Bank is obtained through the time-limited leases provided to commercial organisations. In this way individuals obtain more cash from commercial organisations without introducing disincentives or introducing higher taxes. While this distribution of surplus profits may be appealing for reason of equity and justice, it is of vital practical importance of the satisfactory operations of a capitalistic society.

35. If the cashflow values created in excess of the incentive for investors are returned to the capitalists, they will be re-invested instead of consumed. The investors are by definition not consumers of surplus cashflows. But new productive investment funded by the surplus values can only be justified if there are expectation of new consumption. New consumption will be predicated upon the surplus values created in society through increasing productivity being received by consumers rather than investors. New investment, increasing productivity, and economic growth is then dependent upon the transfer of cashflows in excess of incentive (over-time) flowing to investors instead of consumers. From the analysis above, this will produce the under employment of both labour and capital. The concentration in the ownership of natural resources creates demand competition. This produces price increases in real assets relative to financial assets backed by technology, which are under-employed. The concentration in asset ownership thus results in creating inflation with unemployment. These problems need new policy initiatives on the distribution in the economy of assets and liabilities. That is, policies of tenure are required (refer to Appendix 1), to complement monetary and fiscal policies of economic management. The co-operative Land Bank concept provides an opportunity for policy initiatives in this regard.

36. The extent to which a co-operative Land Bank could provide cash dividends would depend upon the number of commercial enterprises present, and the time of their establishment. Low-income communities would be motivated to elect a Board of Management, which would attract as many industries to the areas as possible to provide both employment and a share of surplus values in excess of incentive. Such co-operatives would then, by their own democratic choice, become industrial areas. Affluent communities desiring a non-industrial parkland environment would develop in those co-operatives in which the residents could afford to do without dividends from their Land Bank and even pay rates. Compromise situations in between these two extreme positions cold also evolve. The preferences of individuals to move between one type of co-operative and another would be tempered by the market pricing realities and opportunities of (a) co-operative rates or dividends; and (b) the buying/selling price of collective equity interests in co-operative of different environmental characters. The prices would reflect the market trade-offs of economic and environmental preference.

37. The environmental character of a co-operative Land Bank would be determined by both its visible structures. The invisible cashflows would very much be determined by the physical attributes of a co-operative. Features that in turn would be structured by members of the co-operative to suit their collective aggregate preferences. Preferences change, so even if the visible structures have been planned and integrated into the design of the economic structure of a co-operative there need to be the facility for both to change in harmony. The invisible structure of a co-operative can change itself, and facilitate change in the visible physical structures in a number of ways.

38. The co-operative can change its own structure by merger or spin-offs in the manner of conventional Commercial Corporation. This would allow new Land Banks to be formed out of old ones to recognise changing need, and identity of different physical areas. The Land Bank could itself facilitate change in the physical use of land as all its land has a common title. The windfall gains or wipeouts created by building new transport conduits, or the whole community would share

changing land use in other ways. This could have a very profound effect on the management structure and operations of the co-operative. It is the very substantial windfall gains available from defining land use under conventional systems that provides both the motivation and the means for corruption in local government and land planning bodies. As co-operative tenure would minimise individual windfall gains and wipeouts, it should also minimise the motivation and facility for corruption.

VII Use and Objectives

39. The co-operative Land Bank concept provides means for obtaining a number of specific advantages in various situations, such as:

(i) URBAN RENEWAL —“INURBIA”

(a) Reduce/avoid the need for the development agency to contribute ash for resumption and/or development;

(b) Substantially improve the minium standard of housing which low-income persons can acquire;

(c) Provide a framework for institutionalising conflicts between owners and users (squatters) of property to facilitate mutually beneficial development.

(ii) URBAN GROWTH AREAS — “HYPURBIA”

(a) Reduce/avoid the need for new home buyers to pay cash for the cost of the associated land and services required;

(b) Reduce the cost of development and so increase the equity value in land for its users by eliminating the land speculator profit and associated taxes.

(iii) SUBURBIA

(a) Provide a structure for local government that integrates on a collective basis community economic and non-economic interests;

(b) Facilitate development and redevelopment by:

- Eliminating specific claims to land, and so the costs of changing its use;
- Reducing the cost of changing the use of improvements on the land by reducing the opportunity for capital gains from the improvements;
- Reducing the inequities of windfall gains and wipeouts from changing land use.

(c) Improve the quality of local government by reducing the social and economic pressures created by minority vested interests to change land use;

(d) Improve the quality of the environment by providing all members of the community with a collective economic interest whose value will reflect the relative advantages/disadvantages of environments owned by other competing co-operatives.

(iv) ISOLATED RECOURCE EXPLOITAITON — “NEWURBIA”

(a) Eliminate the need for either governments or enterprise to raise capital to construct the social infrastructure required servicing an isolated development project. (Refer to the social infrastructures "Sale and lease back" technique described in Appendix 3.) This provides a means for financing investment in social assets from the future savings they help generate. As a result, the ability of an economy to forego current expenditure to finance the social investment is eliminated as a constraint for development;

(b) Reduce the cost of capital of new developments and so increase their viability and make marginal projects attractive. (Created by financial synergy as explained in Appendix 2);

(c) Improve the negotiability and markets for houses in isolated communities by removing the restrictions and caveats of government or enterprise landlords;

(d) Reduce the out-of-pocket costs of all social infrastructure maintenance by the transfer of this responsibility to individuals who could undertake this function as a leisure activity to improve his economic interest;

(e) Improve resource productivity by:

- Reducing industrial disputes arising from town management being carried out by enterprise management;

- Providing an institutional framework for individuals to seek power status and recognition independently of industrial actions.

(f) Facilitate the development of the community into a viable self-sustaining settlement not necessarily dependent on the initiating enterprise.

40. From the preceding discussion and analysis, seven general objectives emerge as criteria for evaluating land tenure systems. Besides providing a basis for evaluation of different systems they provide design criteria for creating a co-operative Land Bank. These seven aims being to maintain and/or improve; equity; justice; exclusivity; synergy; environment; and social development. The contribution made by a co-operative Land Bank to these objectives are summarised below:

(i) Equity is improved by the reduction of windfall gains and wipeouts created by changes in land use;

(iii) Justice is improved by the capture and distribution of new value increments to those individuals responsible for their creation;

(iv) Exclusivity is maintained by preserving private property rights over a volume in space;

(v) Choice is maintained by allowing private property to be freely negotiable and interests in public property being redeemable;

(vi) Synergy is improved by having a duplex title system for a more efficient matching between an individual's economic interest and his utility for use and/or ownership of property;

(vii) The physical environment is maintained and improved by all residents in the community having an economic vested interest in its value;

(viii) Social development is improved by the dynamic structure of the co-operative which facilitates change and os progress.

41. Consideration of the long-term interdependency in human settlements of their physical and social environments provides further evidence for the need for dynamic social structures. Since recorded history the creation of any significant visible structure of human settlement has been dependent upon the existence and character of their invisible structures. Further, the maintenance, use and utility of the visible structures have been predicated upon their compatibility with the

contemporary religious, social, economic and political order. Throughout the world there are grand and sophisticated physical structures decaying in societies whose invisible structures have long collapsed to the point where the visible structures can no longer be used, let alone maintained or built. Many examples will found in the Middle East, India and South America.

42. In North America there are already many settlements where extensive inner city areas are suffering physical decay. Decay that can degenerate the social structure — evidence of the inter-dependency of visible and invisible structures. The examples in the U.S.A. also provide evidence that self-reinforcing decay of both the visible and invisible structures of society is not dependent upon the status of society. America is the most technologically advanced, affluent, and highly educated civilisation the World has know. The problem is not one of status but of internal organisation. Organisation meaning here the tenure system by which individuals, things, and the institutions of society are related. This should indicate the vital importance of the missing science of tenure to the survival of civilisations.

43. The science of tenure is not only needed to support the work of town planners, architects, and builders, but the development of society itself. The ability of society to build physical structures has always exceeded the ability of society to maintain and use the structures for their useful life. Rather than the visible structures of society having a planned short-term obsolescence, the invisible structures have an unplanned long-term obsolescence that terminates the maintenance and use of the physical structures.

44. The assumptions common to all developing and leading societies is that their social structure is going to transcend their physical structure. An assumption that has been unequivocally shown by history to be false. But like the soldier or racing driver, the collective consciousness of great civilisations is that it is only the other people who are going to die. The historically inevitable rise and fall of civilisations must therefor continue until the collective consciousness of countries develops so as to recognise their in-built susceptibility for decay and plan remedial action on a continuous basis. Such conscious introspection is, however unlikely, especially in leading societies. Their status as leaders will encourage them to export their social structures with all their in-built defects and hidden self-destruct mechanisms to developing countries. A process which could well be encouraged by developing countries being impressed by the current status of such leading countries.

45. The evolutionary process of the rise and fall of civilisations is itself now changing rapidly. The time period for rise and fall has considerably shortened. There are now a great multiplicity of countries in various states of rise and fall. As a result, the experiences and lessons of history have increased manyfold, and the experience can now be observed in many stages and in many places. First hand experience with various stages of the evolutionary rise and fall of societies is for the first item available at the same time. Evolutionary progress by its nature occurs from trial and error and the accidents of success. The opportunity for successful accidents is increasing rapidly as more societies emerge trying different structures to further their survival and growth. The time is emerging when evolutionary progress itself may be planned instead of being a series of successful accidents. Accidents which have successfully produced the current world and the universe.

46. The use of land leases without landlords in human settlements provide one small way of planning evolutionary progress in the structure of society. The concept provides a basic building block for creating a new dynamic economic order of Social Capitalism. An order which is both sensitive to, and facilitates change.

47. Because it is a building block, the new order can be constructed piece by piece without revolutionary changes. Different shares of blocks can be tried and compared contemporaneously to facilitate evolutionary dynamics. It is recommended, therefore, that state or Capitalistic landlords be replaced with collective ownership and control of non-owner occupied dwellings in human settlements with the entitlement of each resident in the co-operatively owned property being determined by the rules established by the community.

NEW FOUDATIONS FOR ECONOMICS

It is now generally accepted within and without the profession of economic that there is a need to develop a new approach. "The conventional methods of Western Governments for managing their economies are inadequate, contradictory and dangerous" – so said[6] J.F. Cairns, M.P. a Ph.D. in economics who, for the first half of 1975 was Treasurer and Deputy Prime Minister of Australia. Leading economists around the Western World are expressing similar frustration in their inability to manage the problems of inflation and unemployment.

The irrelevance of orthodox economic theories has made them impotent for providing solutions to current economic problems. Radical political economic prescriptions are either ineffectual or unacceptable. The reasons for this dismal state of affairs become devastatingly evident when modern methods of business analysis are used as the foundations for a conceptual framework or paradigm on which to base economic theory and analysis.

A modern business paradigm proposed as a basis to manage and analyse contemporary industrialised societies is set out in the table below. It is compared with the limited or inappropriate framework of analysis used generally by contemporary economists. The table identifies eight areas of fundamental differences in viewpoints:

No	Area of Difference	Present Paradigm	Proposed Paradigm for Industrialised Societies
1	Activities which provide the foundations for economic studies	The production and exchange of goods and services	The production and exchange of goods and services AND the transformation and exchange of assets and liabilities.
2	Source of increased production or productivity	Principally labour (human factor)	Principally machines and structures (non-human factor)
3	Source of new economic value	Production	Production, tenure and consumption
4	Social objectives	Full employment, higher living standards	Economic independence, personnel fulfilment
5	Criteria for resource allocation or motivation	Profit	Cashflow
6	Notion of "Capital instrument"	Various, imprecise and confusing, eg "Income producing assets", "produced means of production"	The means by which nature is made to yield her resources more abundantly – evidenced by the means producing a cashflow whose present value exceeds zero
7	Real capital formation	Historical savings or consumption forgone	Historical savings or future savings AND consumption
8	Economic management	Monetary & fiscal policies	Monetary, fiscal and tenure policies

Accepting that, with any generalisations there are always exceptions, we may briefly summarise the eight areas of fundamental difference between the paradigms of financiers and economists as arising from:

1. Economists do not keep balance sheets

This was not of critical importance two hundred years ago when the science of economics was established, as balance sheet transactions were relatively insignificant. Cashflows from financial transactions in industrial societies are now of the same order of magnitude

[6] In a review of Shann Turnbull's book – *Democratising The Wealth of Nations*, by J.F. Cairns, M.P., The Journal of the Securities Institute of Australia, *JASSA*, No. 1 – Page 10. [http://cog.kent.edu/lib/cairns.html]

as income and expenditure cashflows. Financial transactions MUST therefore be taken into account to understand and manage modern economies.

2. Economists do not recognise real input of production

Two hundred years ago, over 80 percent of the energy, skill and data required for production was provided by labour. In industrial society machines, structures and organisations now provide over 80 percent of these production inputs. This has been hidden from the economists by the bargaining power of labour preserving its share of National Income to around the 80 percent level.

3. Economists ignore market for assets with long lives

This is consistent with not using balance sheets. Economists have thus generally ignored the "windfall" or capital gains created from tenure, ie, the use or consumption of land, houses, and minerals. These increments in value can no longer be ignored in a world of rapidly expanding population and limited accessible resources if demand inflation is to be understood and managed. Balance sheets are also needed to detect the capital gains obtained by shareholders from retained corporate cashflows. Otherwise the ability of corporate capitalist to get richer from capturing surplus values in excess of incentive will not be observed.

4. Economists neglect the third alternative to work or welfare for distributing National Income

There are three good reasons for economists to ignore the possibility of distributing the ownership of income producing assets as a viable third method for distributing National Income:

(a) Practical techniques for distributing asset ownership did not exist – they do now[7] ;

(b) The incomes accruing to asset owners in contemporary industrialised society is not substantial, being often less 20 percent of National Income. The new techniques for distributing asset ownership described in the author's book would, however, create a new economic system which could allow the proportion of National Income accruing to asset owners to be substantially increased;

(c) Full employment creates maximum production and higher living standards in terms of more goods and services per capita. In affluent economies and some non-materialistic societies, preferences for goods and services, however, are being replaced more and more by preferences for personal fulfilment. Full employment may be inconsistent with either with either personal fulfilment if work is not satisfying. The ability to obtain cash without work or welfare to provide economic independence can ONLY be achieve through owning income producing OR negotiable assets.

The inadequacy of fiscal and monetary policies in managing Western economies can simply be explained from the fact that the distribution, exchange, and transformation of assets and liabilities now determine the greater proportion of cashflows in a number of advanced economies

5. Economists use the arbitrary accounting concept of profit

There are considerable difference and disagreements among accountants on how profit should be defined. If accountants are wrong, how can economists be right? Cashflows are absolute, and avoid the need to arbitrarily define profit and capital components. Individuals as a practical matter are motivated by cashflow, not profit, just as are modern businessmen who use Discounted Cashflow Analysis or Present Value Techniques. Not withstanding the arbitrary and changing accounting concepts of profit, economists base

[7] Outlined in *Democratising The Wealth of Nations*– Shann Turnbull, The Company Directors of Australia Limited, 1975. [http://cog.kent.edu/lib/TurnbullBook/TurnbullBook.htm]

their theories of economic growth, capital, and efficient allocation of resources firmly on this concept.

6. The present economic definition of "Capital Instruments" do not provide a basis for their empirical recognition, quantification, or a useful foundation for analysis of growth

Businessmen design, build, buy, and operate "capital instruments" which they evaluate by cashflow techniques. Businessmen have finely honed these techniques so that they can stay in business and capture maximum possible surplus value from greater productivity. Increased productivity being "the means by which nature is made to yield her resources more abundantly". An objective which is achieved when the present value of the "means" exceed zero. This definition of "Capital Instrument" provides a basis for their empirical recognition, quantification, and a firm basis for analysing economic growth from the creation of surplus values.

7. Economists neglect the possibility of financing investment form future savings

The ability to finance current real capital formation from expectations of future consumption and savings has been developed by accident in only a handful of countries in the world. Neglect of this mechanism and how it may be duplicated in developing countries is very substantially inhibiting world economic development.

8. Economists neglect the distribution of property

The efficient operation of capital intensive economies is largely determined by the distribution of its assets and liabilities among its citizens as investors/consumers. Tenure policy provides an alternative method of keeping the cashflows of investment and consumption in balance through time without the need for government transfers.

But even the new paradigm proposed would be inadequate for deigning and managing a new economic order. The design of any economic system is predicated upon the design of the legal system of property rights. The theory and practice of designing and managing property rights has not been developed as a field of formal study. There is need to develop a new science concerning property rights or tenure, and a need to initiate tenure policies for adequately managing industrialised economies.

Our present systems of tenure have developed on a laissez-faire basis. This has occurred through religious practices, common law and politicians considering short-term social pressures. Even in advanced societies the economic significance of ad hoc changes in the system of property rights appears to be little considered or understood. The accumulated result of many modifications in property rights over the last two hundred years have subtly but fundamentally changed the framework I which Western economic systems operate.

Industrial economies are now running out of control of economists or democratic politicians. Disenchantment and concern over present economic systems is widely evident. A new economic order needs to be built. This will require a new framework of economic analysis and a new science of tenure. The practical means of building a new economic order of "Social Capitalism" are described in *Democratising the Wealth of Nations*[8]

[8] Op. cit

FINANCIAL SYNERGY

Financial synergy occurs when new cashflows or values are released by changing the tenure structure of property rights [[9]]. The tenure structure can be changed by changing either, the character of the tenure holders, or the rules for holding tenure over property.

Synergy can occur from changing the character of the tenure holders because different people place different economic values on identical cashflows or property. The use or "utility" of identical cashflows or property rights may vary with different people for many reasons, some purely economic, others being subjective. As a result, cashflows and property rights can be valued more highly by some people than by others. The market price of the cashflows or property could then be increased by providing tenure to those people who have the greatest use of utility for the property rights. Matching the right property to the right owners is a skill intuitively developed by real estate agents, business brokers and corporate merger and acquisition specialists.

Different values can arise both from different uses and from attributes of the tenure holder. An apartment house may be bought as a residence or as an investment. The economic value to users may be greater or smaller than the economic value to investors. The value of a house to users will vary according to its design and situation. Some people need extra bedrooms or garages, views or local transport, while others do not. Even as an investment the same property can have different values according to the attributes of the investor. Some investors only want large investments units (Life Offices) and some only small investment units. Investors who can obtain tax shelter through depreciation allowances from the asset could pay a higher price than the investor who may not obtain or could not use such allowances. The after-tax yield of investments can vary substantially from one person to another. The market value of property rights can thus change according to the tax attributes of the tenure holder.

As noted earlier, synergy can also occur from changing the rules of holding tenure over property. There are numerous ways in which this could be achieved. An important example is when a country allows property to be privately negotiable rather than being owned by the State. This is especially important in regards to housing. Private ownership allows housing to provide a financial service as well as shelter. The house can become a store of economic value to generate cashflows by its sale or from providing collateral for borrowing. Private ownership of housing can, in times of need, provide economic independence by providing cash without work or welfare. State ownership must therefore be regressive because it reduces the aggregate discretionary economic independence of its citizens. But private ownership may not provide much improvement if private ownership is highly concentrated or held by institutions which do not provide negotiable interest to citizens which may be used to produce cash at the citizens discretion without loss of value.

Because of the institutional nature and highly concentrated ownership found in advanced capitalistic societies, the opportunity for releasing financial synergy in market economies is almost as great as the opportunity existing in socialistic societies. In either type of system as they presently exist, there are very considerable opportunities for increasing the aggregate individual economic independence of citizens by restructuring and redistributing the property rights of negotiable and/or income producing assets.

Synergy can also occur from creating specialised property rights. The owner of a prestigious downtown office building can increase the value of his ownership by creating additional types of property rights. He could crate and sell "naming rights". These rights could be more valuable to a non-owner than the owner for advertising. Ownership rights could also be divided into what may be called debt and equity rights. The property rights available to debt and equity holders may, in turn, be separated into various sub-categories.

[9] [The release of economic value from adopting a formal system of property rights is the basic idea of *The Mystery of Capital: Why Capitalism Succeeds in the West and Fails Everywhere Else*, Heranando de Soto, Basic Books, 2000]

The debt may be created to be senior, junior, secured, unsecured, short-term or long-term. Equity could be created to have deferred or preferred rights to either income or capital, be convertible, redeemable, non-negotiable. The multiplicity of specialised financial property rights being tailor made to match the peculiar requirements of various classes of investors. The development and use of such complex sophisticated multiplicity of property rights is motivated by the substantial benefits and values which can be released by financial synergy.

The benefits of synergy need not be directly economic. The various grades of debt and equity create various grades of contingent influence and control for their holders. These contingent forces are, of course, deigned to allow the holders to exercise checks and balances on the operating discretions of the creditor, as they affect the holder's interest. Such checks and balances can produce automatic self-correcting influences to secure the survival and growth of the creditor. This mechanism for correcting problems in town, city, municipal or state finances is not usually formalised or finely defined as it is in commercial practice. The co-operative Land Bank concept provides an institutional framework to introduce these tenure signals and forces to discipline urban financing. The way in which this can work is illustrated by the influence currently exerted by the debtors of New York City on the management of its affairs.

Town co-operatives would, in general, always produce financial synergy because they provide negotiable interest in community assets such as water, sewerage, power services, roads, parks and other common areas. Assets in which there is normally no explicit negotiable interest. Their values may be available to some degree in specific titles where they can produce an increase in economic values. The economists describe the source of such capital appreciation as externalities. The purpose of the co-operative tenure system is to explicitly capture and fairly distribute these values which arise from factors external to a specific area of land.

In some special situations, a co-operative tenure system can release very substantial financial synergy. This is very well illustrated in Appendix 3, which describes the use of the co-operative tenure system for financing the social infrastructure of isolated project communities.

Appendix 3

CO-OPERATIVE TENURE IN PROJECT COMMUNITIES

Project communities constructed by an enterprise to accommodate a work fore provide a situation, which is very attractive for conversion to a co-operative tenure system. Improvements in industrial relations are often the more important reason for seeking ownership by individuals rather than by the enterprise. Ownership by individuals allows project management to be separated form community management.

While traditional private ownership systems allow the more extreme problems of Company or Government owned towns to be avoided, they provide a second-best solution. The introduction of traditional private ownership might, in any event, be difficult or impossible. The very isolated mining communities in Australia provide a good example of the difficulties and also the very substantial benefits of financial synergy available form using a co-operative tenure system.

One such community for which a co-operative tenure system is being proposed provides an example for illustration. The town was constructed five years ago to provide a workforce for the largest single iron ore mine in the world. All houses, apartments, schools, hospitals, roads, parks and other improvements to the desert are owned by a partnership of five corporations. All improvements were built on land leased for 21 years form the State Government with conversion to freehold being available for individual owners. The town cost around $50 million five years ago and now houses over 4,500 people and a workforce of over 2000.

The size of the town is soon to be doubled, but inflation has doubled the replacement value of the existing stock of houses. Their market value would now be over $100million, but not one dollar cost of the town constructed five years ago would be found on the balance sheet of any of the corporate owners. The total cost having been written off for tax purposes. In any event, the equity in the town is diminishing over time even as the market value increases because it is built on leasehold land. The present tenure system does not allow the owners to use the assets as collateral or provide the residents with a means of benefiting from $50 million of capital gains representing $25,000 per employee. A relative monetary gain which employees could convert into a gain in real current value to he extent he financed his purchased by debt. (This mechanism is illustrated in Table 5 “How inflation Increases Wealth” of chapter 9 “Wealth from Inflation”, page 41, *Democratising the Wealth of Nations* op. cit).

However, when the employer owns all the houses there exists no alternative market for resale in the event that an employee loses his job. This, and the need for the employee to go heavily into debt to buy a house, provides a very strong disincentive for individuals homes to be purchased under traditional tenure systems. A co-operative tenure system introduces a neutral institution to insulate mine management from town management. This provides a forum for individuals to work in furthering community interests and obtaining power, status and recognition by non-industrial means.

The main motivation for the mine owners to seek privatisation of the town is to defuse industrial unrest. Many strikes’ are created by disputes over housing. So great is the concern of the mining company that they would be willing to give ownership away. While this would mean a gift of $100 million, it would not make any change to their balance sheets! It could however, reduce their operating expenses. The repair and maintenance costs of the town costing from 5 to 10 percent of its current market value. Private ownership could provide a means of turning these cost activities into leisure activities of the employees, which would in itself improve the industrial climate by introducing avocations.

A surprising feature of introducing the co-operative tenure system to a project community is that if assets were given away, it would not work as well as if the assets are sold for fair value! Some reasons arise because the arrangement is constructed on a “sale and lease back" principal. The lease premiums available to the co-operative each year increasing in proportion to the price at which the town is purchased. To create a town co-operative the owners would exchange their property rights in the real assets of the town for redeemable securities in a newly incorporated co-operative. Ownership securities of the co-operative would be issued without cost to all residents. This would allow the co-operative to obtain freehold title from the State Government. The owners would dispose of their interest in the town on the basis of "leasing it back", the miners would agree t pay an annual 'lease premium', 'town rent' or 'town rates' of, say 13.5 percent of the sale price, for thirty years. With both the freehold and the thirty-year contractual cashflow as collateral, the co-operative could borrow up to, say 60 percent of the purchase value of its assets. This money would then be used to redeem 60 percent of the securities issued to the mining companies in consideration of selling the town. The other 40 percent being redeemed as and when the strata titles of the co-operative. All borrowing and interest paid by the co-operative AND its members to purchase strata titles could be paid off from the lease premiums which over thirty years would aggregate to over $400 million. The co-operative could thus guarantee to buy back all strata titles sold.

The $100 million obtained by the vendors represents a profit which otherwise would not be obtained. A profit which allows the repair and maintenance costs of town ownership to be eliminated. The 13.5 percent lease premium being considered the cost of raising $100 million of new capital. Capital which does not have to be paid back like debt, and is equivalent to an equity issue but without producing any equity dilution for the owners.

The town rent is technically not a lease premium and so as a town rate, it does not even require a note on the financial statements of the miners. The co-operative tenure system provides a means for off balance sheet financing of project towns. As this reduces the cost of capital of the project, it would allow marginal enterprises to become viable or increases the profitability of viable operations.

There are many ways in which the restructuring of township property rights in this example release substantial financial synergy. The most obvious being the miners obtaining a $100 million profit, and the residents obtaining the opportunity for substantial capital gains. Some sources of financial synergy are quite subtle. One is the ability of the town co-operative to borrow more money than the value for which it purchased the town. This facilitated by private borrowers contributing their own personal guarantees to spread and reduce aggregate risk. Private borrowing to finance the purchase of strata titles also introduces the possibility of further risk sharing with external institutions through mortgage insurance. The end result is clearly one where everybody is better off. Both the employers and employees can obtain something more without anybody losing. The new values available were not created, but released[9]. The values were there all the time but were locked up, hidden or reduced by the tenure system. The benefits of carefully designing the tenure structure can be quite dramatic.

The cashflow mechanics of the above arrangements are summarised in the following table.

SALE AND “LEASE BACK” OF COMPANY TOWN

Pro forma cashflow analysis

Assumes:

1. All assets sold at original cost y vendor and “leased back” with an annual premium or fee of 13.5 percent for 30 years.

2. Liabilities and costs of co-operative consolidated with its members (refer to notes 3 and 6).

Years	0-10	10	15	20	30
Nature and Proportion of Liabilities (%)					
Co-operative’s equity at cost (1) value of assets	-	20	40	50	100 (2)
Home loans (3) government guaranteed at 10.5% pa.	-	50	50	50	50
Vendors 20 year (4) loan at 10% pa.	10	10	10	-	-
Institutional 10-15 year secured (5) loan at 12.5% pa.	40	20	-	-	-
Total liabilities = Total asset (At transfer valuation)	100	100	100	100	100
(Minimum earning required for sinking fund)	(10.1)	(3.2)	(Nil)	(Nil)	(Nil)
Operating Costs (%)					
Weighted average interest cost (6)	11.25	8.75	6.25	5.25	-
Management costs (7)	1.00	1.00	1.00	1.00	-
Availability (8) for sinking fund and/or dividend	1.25	3.75	6.25	7.25	-
Total costs = Annual fee (“lease premium”)	13.50	13.50	13.50	13.50	-

NOTES:

(1) Equity at market value could be more or less

(2) Members of Co-operative will obtain a bonus to the extent market value of site or structures exceed 0% not 100%.

(3) Obtained from traditional private and public sector sources with only guarantee of members not the co-operative or vendors. Liabilities reflected in consolidation through buy-back guarantee of co-operative which equals its commitments to make an interest-free loan (contra asset) to member of all their interest and capital payments to outside home finance sources.

(4) Secured by second ranking charge and financed out of the profits of vendors selling infrastructures at undepreciated cost.

(5) Secured by 40 percent first mortgage over site and floating charge over all improvements and supported by covenants of vendors to pay an annual fee. Finance from private syndicate of institutions or, with a large-scale sale and lease back, a Eurodollar bond issue.

(6) Outside housing finance interest component is not expended, but is lent to member interest free (3).

(7) Maintenance costs and services paid by residents and/or surplus from operations of co-operative.

(8) Requires the financial structure to be cost in a form suitable to provide a tax shelter for the sinking fund cashflow.

Appendix 4

COMPARATIVE ECONOMIC ANALYSIS OF TENURE SYSTEMS

Operating Assumptions:

Typically, in Australia, a big private developer will purchase land 3-7 years before seeking it to be re-zoned for residential purposes. He makes his profit from the increments in land value from rezoning. Subcontractors are commonly used to undertake the subdivision work and house construction. The principal motivation for a developer to sell a house with the land is not for any profit he may obtain from its construction, but simply as a means of selling the land. In fact, the developer may often subsidise the cost of the house to obtain his profit and liquidity from land realisations. This occurs because finance for the purchase of a home is much more readily available with more attractive terms on a much smaller deposit and cheaper cost than finance for land purchases. Thus, the developer constructs the house as a means of selling the land.

For the purpose of the economic model, it has been assumed that all the developers' profit is made on the land content, and that the cost of selling the package and construction the house is 50 percent of the house and land package. Not only are these assumptions realistic, but also allow the cost structure of co-operatively owned Land Banks and government rental tenure to become directly comparable when a private contract builder is used in all situations. The builder's profit as distinct from the developer's profit is taken to be included in the house construction cost in each alternative system of tenure.

The division of costs between: land acquisition, holding and administrative charges, subdivision and management can vary widely from case to case, but their total value which has been taken as 17 percent of total costs is more stable. In some areas, allowance must also be made for the cost of servicing the land with sewerage and water. The unzoned cost of land can be very much smaller percentage. A private developer who purchased land in the outer Sydney suburb of Menai ten years ago at $2000/acre was reported in *The Australian* of July 9, 1974, that it was now worth $100,000/acre when the Council proposed to resume it at $50,000/acre on an un-subdivided basis. Even using the Council's lower valuation, the cost content of the land after being packaged with a house would become less than 1 percent of the total house and land-selling price. The 8 percent figure used in the model is thus high, especially when no allowance need be made in Menai for the costs of servicing with water and sewerage, etc.

Costing of House and Land Package:

100% = selling cost of land and house package = 100 monetary units

	(Land cost unzoned	8	)	
50% land	(Holding & admin. Charges	4	)	17
content	(Subdivision & mgt. Costs	5	)	
	(Tax on developer's profit	16		
	(Developer's profit	17		
			50	
50% house	(House construction cost	42		
content	(Cost of selling package	8		
			50	
100% total cost			100	

For comparison purposes it will be assumed that the cost of land acquisition, subdivision, and the management of these activities by a private develop; or Government Land Commission, Development Corporation, or a co-operatively owned Land Bank are the same 17 8units. The local bank and Government organisation could well reduce the time between land acquisition and utilisation and so produce further cost savings. Using the above costing and a homeowners making his purchase with a 5 percent deposit (equivalent to 2.5 units in the case of a purchase from a Land Bank or building on rented leasehold land), his liabilities and assets would be as follows:

Land Tenure System	Home Owners Balance Sheet			
	Liabilities		Assets	
PRIVATE OR GOVERNMENT PREMIUM LESHOLD	Home loan	95	House & land	100
	Equity (5% dep.)	5		
		100		100
GOVERNMENT WITH RENTAL LEASHOLD	Home loan	47.5	House	50
	Equity (5% dep.)	2.5		
		50.0		50
LAND BANK	Home loan	47.5	House	50
	Equity	35.5	Bank shares	33
		83.0		83

Land Bank Balance Sheet

Borrowing's	17	Land	50
Shareholders'	33		
Equity	50		50

In the above pro forma balance sheet, the unit value of the Bank's borrowing has been made equal to its set up costs (17 units). The Bank's shareholders' funds (33 units) have been created by the increments in land values fro rezoning and/or other factors, which enhance values. The increments in value in most suburban situations (also in urban renewal situations when resumption is carried out principally by exchange of equity entitlements in the land) would provide sufficient collateral to borrow the necessary finance to fund the establishment costs. The greater the inflation rate, the better the Land Bank works, and the greater are the benefits received by its members. The collateral value of the land would be considerably enhanced by the leasehold improvements. The Land Bank could be expected to be self-financing from this enhancement in value independently of either the inflation rate or increments in value created by rezoning. Beside residential improvements, the Land Bank may also have commercial and industrial lessees paying market rentals, to further support values and the Land Bank's cashflow requirements to service any debts. These rentals could conceivably provide sufficient income to not only pay all operating costs of the Land Bank/local council, but create a surplus to provide the residents with a dividend on their shares in the Bank. The Bank could also accept money on deposit from its members and make loans to its members in the manner of a co-operative building society or Housing & Loans Association.

As law allows Trustees to borrow up to 66 percent of the value of land, Land Bank could expect to have equity to debt ration of at least 1 to 2. In the pro forma balance of the example quo5ed above, the equity to debt ration is only 1 to 1.5. Thus, the Bank could, if desired, increase its borrowing capacity to lend its members their deposit to buy their houses, and flats.

The synergy of the Land Bank's financial structure is revealed by consolidating the balance sheet of one of its members with the members pro rata share of the Land Bank, and comparing it with a freehold home owner:

Home Owner Consolidated with Land Bank

	Liabilities		Assets	
	Bank Tenure	Freehold Tenure	Bank or Freehold Tenure	
Borrowing	64.5	95	House	50
Equity	35.5	5	Land	50
	100.0	100		100

The higher equity value is obtained by the elimination of the developer's profit and government tax, the value of which both now accrue to the homeowner. As total borrowing to finance the purchase of the land and house package is also less, the total interest costs are reduced and the total home finance requirements diminished without resort to government funds. In addition 17 units of the debt are not a liability of the homeowner. It is a debt only of the co-operative entity of the Land Bank and is repaid from funds obtained by secondary residents as is shown in the analysis of the Land Bank's profit from membership transfers.

Cash Flow Comparison of Land Tenure Systems

	Private Developer	Govt. Premium Leasehold (1)	Govt. Rental Leasehold	Land Bank
GOVERNMENT CASH FLOW				
Tax or lease premium	+16	+50	Nil	Nil
Purchase & development cost	Nil	-17	-17	Nil
Net	+16	+33	-17	Nil

HOME OWNER CASH FLOW

		Private Developer	Govt. Premium Leasehold (1)	Govt. Rental Leasehold	Land Bank
(a)	At purchase	5		2.5	2.5
	Deposit	95		47.5	47.5
	Home Loan	100		50.0	50.0
(b)	Annually				
	Interest 10%	9.5		4.75	4.75
	Rent	Nil		0.27 (2)	0.27 (3)
	Capital repayments (4)	3.2		1.58	1.58
	(30 equal payments)				
		12.7		6.50	6.50
(c)	With Sale in 10 Years				
	Equity in house (5% pa appreciation)	81		81	81
	Equity in land/shares	130		-	130 (5)
	2/3 loan payout	(63)		(32)	(32)
	Net cash proceeds	148		49	179
	Investment (deposit +1/3 loan paid off)	37		18	18
	10 year gain on investment	300%		172%	894%

Notes:

(1) The value of the lease premium is assumed to make the cost of the house land package equal to that of one sold by a private developer.

(2) Nominal value used as rounding figure.

(3) Equate to land commission rent. Its actual value would be the pro rata share of the Land Bank's interest charge plus management fee less income obtained from commercial and industrial rentals.

(4) For simplicity, the normal practice of credit foncier lending is ignored (ie the combined value of interest plus capital repayments being equal over the term of loan).

(5) Over the ten-year period, the Land Bank could be expected to have repaid all its borrowing form trading in its shares as illustrate in the tabulation of profit from membership services.

The advantages to the individual and the economy of the Land Bank system of tenure appear quite outstanding in comparison with the alternative systems of tenure.

The operation of the Land Bank is improved by inflation, yet it provides a means of, in effect, halving the cost of new housing for its members. To the extent that a significant proportion of all new housing is built by Land Banks, then there could be a multiplier effect of holding down, or even reducing, the price of the old stock of houses in the community. The Land Bank provides a method of financing the poor and under privileged members of the community into becoming owners of an asset which has appreciated in the major urban Australian areas at a rate three or four times greater than inflation. Studies undertaken for unit land trust investments have revealed that over a twenty-five year period, the annual average increase of the unimproved capital value of land for the whole of some Sydney municipalities has exceed 20 percent (over four times the historical rate of inflation).

Not only do Land Banks provide half cost no-deposit housing, but they offer far superior economic gains to their members, in comparison with the other tenure systems, when the home owner moves from his place of residence. The financial system of the economy also benefits. The amount of home finance, which is usually made available at subsidised rates, is also halve. The total finance required for housing on the model described above is reduced from 95 percent to 64.5 percent of the house and land package, a reduction of one-third. The dungs required by the Land Bank could be procured at a proper commercial competitive rate. These funds are repaid from the Land Bank dealing in its shares as might be done by an unlisted Real Estate Investment Trust (R.E.I.T.).

Trading in Land Bank shares arise from its members transferring to other areas. The initial members of the Land Bank obtain their equity without cost. On selling their house by private treaty, their shares are repurchased by the Land Bank at their net asset value, similar to a R.E.I.T. or mutual fund. However, it is assumed in the table following, that if they sell their interest in less than ten years the repurchase price by the Land Bank is discounted 10 percent for each year less than ten (column 7). The discount becomes the Land Bank profit on selling the shares to the purchaser of the house, and this capital profit being tax free in a co-operative, is utilised to redeem the Land Bank debt (column 3). Typically the average tenure of new home ownership is around seven years, and the distribution of transfers assumed in column 5 is consistent with this average. If the Bank did not resell its shares at their net asset value, then the departing resident obtained for his improvements would be accordingly more or less. The discount provision also protects the equity interest of residents who remain the longest in communities in which the population is decreasing. It avoids the greatest value being captured by the quick movers, which reinforces sales and depresses prices in either land or mutual funds.

<u>Land Bank Profit from Membership Transfers</u>

1	2	3	4	5	6	7	8
			(2)-(3)	Assumed	(4)x(5)	Given	(7)x(6)
Year	Land Value + 10% pa	Debt = (3)n-(8)(n+1)	Share-holders funds	Percent redemption	Sales at market	Percent Margin	Profit = Debt retirement
0	50.0	17.00	33.00	0	0	100	0
1	55.0	15.63	39.37	4	1.52	90	1.37
2	60.5	14.05	46.45	5	1.97	80	1.58
3	66.6	12.10	54.50	6	2.79	70	1.95
4	73.2	10.14	63.06	7	3.27	60	1.96
5	80.5	7.93	72.57	8	4.41	50	2.21
6	88.6	5.61	82.99	9	5.81	40	2.32
7	97.4	3.39	94.01	10	7.40	30	2.22
8	107.2	1.51	105.69	10	9.40	20	1.88
9	117.9	0.45	117.45	9	10.57	10	1.06
10	129.7	-	130.31	8	10.57	0	1.06