

## William Pyle: Ownership and allocation of industrial land in Russia

Russia counts among the legacies of central planning its current patterns of commercial land ownership and allocation. While property rights over much of the country's capital stock were privatized quickly in the 1990s, the land underneath remained almost entirely government-owned. And despite federal-level efforts to address the imbalance, private ownership of commercial land continues to be rare. Of the country's 1.6 million hectares of industrial land located outside of "population centers," nearly 96% is owned by the government (federal, regional or municipal), while only 4% is owned by firms ("juridical persons"). And of 3.5 million hectares of non-agricultural, commercial land in "urban population centers," roughly 89% is owned by government, just over 3% is owned by firms, with the remainder held by households ("physical persons").

### A burden of state ownership

It can be argued that continued state ownership of commercial land imposes an ongoing burden on the Russian economy. The absence of private ownership, for one, may slow the distribution of land according to best-use criteria. We know, for instance, that many regional and municipal governments impose barriers that limit competitive access to unused urban parcels. And without private titling, markets for reallocating developed plots have been slow to evolve. Given the pattern of land distribution that Russian cities inherited from the Soviet system, including the high share of centrally-located land set aside for industrial purposes, a slower pace of reallocation may be particularly costly. One study found that over one-third of the built-up area in Moscow and St. Petersburg was set aside for industrial purposes, a figure at odds with the 5% – 10% norm that characterizes the largest cities elsewhere in the world and one that urban geographers and economists consider as *prima facie* evidence of inefficient land allocation.

Continued state ownership of land may also constitute a burden in the sense that enterprises that do not own their land may be less willing and/or able to invest in their development. It has been argued, for instance, that owning land gives public officials an additional mechanism through which to interfere with private enterprise, making for a business environment in which property rights are less secure and the future is more uncertain. Not owning land, moreover, limits the assets that can be used as collateral, potentially making it more difficult for firms to access external

loans. Indeed, data from the 2005 EBRD-World Bank Business Environment and Economic Performance (BEEP) Survey reveals that only 9% of Russian firms that posted collateral on their most recent loan used land; the corresponding rate in the other surveyed countries in the FSU (excluding the Baltic states) was 16%, while it was 32% in the ten former socialist countries now in the EU.

### Variation across territorial subjects

Although state ownership of commercial land remains the rule across Russia, we do observe a fair amount of variation in the extent of private ownership across territorial subjects. Presidential decrees promulgated in Yeltsin's first term first established the right of enterprises to purchase the land on which they sat but initially offered little in the way of specifics to guide enterprises through the process. Nevertheless, privatization of land proceeded relatively quickly in a handful of jurisdictions. Overall, however, the pace slowed greatly during Yeltsin's second term as his administration struggled with Communists in the Duma over the contents of new legislation. The political deadlock was broken, however, during Putin's first term as his government pushed for and achieved the adoption of the Land Code in 2001.

The new legislation laid out guidelines for pricing plots, moved the country toward a system of unifying titles over land and its attached structures, established the transferability of long-term leases and sought to bring an end to the Soviet-era tenure of "permanent use" by laying out a deadline by which all firms had to establish clear lease-holding or ownership rights over their plots. In short, the new Land Code constituted a federal initiative to push regional and local governments to privatize non-agricultural land (or, at the least, to establish clear lease-holding rights) and to give transparent market forces a greater role in allocating its distribution. As in the 1990s, however, the response of sub-federal jurisdictions varied tremendously.

The most recent data from Russian government sources illustrates this variation. For instance, in Tatarstan, the majority of industrial land located outside of "population centers" is held by "legal persons." But in 25 (of the recorded 78) territorial subjects, all such land is government-owned. Of non-agricultural, commercial land in "urban population centers," "legal persons" own 3.6% of all land not held by households, with the specific figures ranging

from zero in eight (of the recorded 80) regions to 19.9% in Belgorod oblast. In the city of Moscow, where the Luzhkov administration prefers signing long-term leases, only 0.2% of land is held by “legal persons.” In addition to Tatarstan and Belgorod, territorial subjects that might be characterized as more progressive on land matters and have high percentages of private land ownership according to these indicators include Vologda, Sverdlovsk, Kemerovo, Lipetsk, Perm, Rostov and St. Petersburg.

### Preliminary evidence of a burden

With available evidence, it is difficult to establish a causal link between these indicators and various measures of development across territorial subjects. But simple regression models do indicate that at the regional level both are strongly and positively correlated with both bank-financed and total capital investment from 2005 to 2007. These relationships hold even after controlling for the value of these variables in 2000, as well as the beginning-of-decade gross regional product, regional branch structure, population, urbanization rate and various political-institutional variables. Whether because of weaker property rights security or a diminished capacity to use land to secure external loans, these findings are at least suggestive that continued high rates of state land ownership may be suppressing investment activity.

Firm-level evidence from the 2005 BEEP Survey is also suggestive of a burden in this regard. Of the six hundred responding firms in Russia, 24% reported that issues related to titling or leasing of land

were non-trivial obstacles to their growth and development. Although this percentage is smaller than those for corruption (40%) or uncertainty regarding regulatory policy (59%), regression analysis demonstrates that firms in regions in which respondents reported such problems with land or titling at higher rates were less likely to have accessed external sources for financing capital investments in the previous year – even after controlling for various firm and regional characteristics, including reported problems with corruption and regulatory uncertainty.

Although this evidence points to one potential cost of state ownership of commercial land, it is not clear that existing ownership patterns are in any way retarding progress toward a more efficient allocation of land usage, particularly in urban areas. Moscow, which has resisted almost all efforts to privatize commercial land, seems quite intent on using non-market, administrative mechanisms to change the face of its urban landscape. This past spring, City Hall announced a ten-year goal of moving many industrial companies outside city limits to free up roughly two-thirds of the 19,500 hectares of factory land for residential and office buildings. But as industrial icons of a bygone era – such as Krasnyi Oktyabr and Zil – are down-sized or moved, it is yet unclear whether the new tenants will be selected more by economic or political criteria.

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