

Russia and the Single Tax

by Ted Gwartney

After the fall of the Soviet Union, many Georgists were intensely optimistic that the stage was set for the formerly Communist states of the Soviet bloc to embrace the public collection of site rent. Alas, it did not turn out that way; there was too much money to be made by well-connected bureaucrats and foreign investors. So, despite the dogged patience of Fred Harrison, Nic Tideman, Tatanya Roshkoshnaya and other Georgist stalwarts, hope faded. But recently, the collapse of Russia's economy has created a new urgency in their search for rational and effective policies for privatization and public revenue. And, the people of Russia have evidently always been deeply suspicious of land speculation — and therefore the government has always stopped short of outright land privatization. Today, the economic situation in Russia is truly calamitous — but, as Robert Schalkenbach Foundation Director Ted Gwartney reports, seeds of bright hope are indeed taking root. — L.D.

Plans to locate the rent-as-public-revenue strategy inside Russia's reform process are being fine-tuned in Moscow. Three independent streams of action are gathering momentum: Economic policy, Political maneuvering, and Academic validation. Consolidating the work will take determination and the deployment of resources from the worldwide Georgist movement. But the level of interest inside Russia is high enough to warrant optimism!

Economics Premier Yevgeny Primakov has already introduced laws to reduce taxes on wages and profits and raise them on rental incomes. An assessment of the economic impact of the initial changes has already been computed by Dr. Nic Tideman, whose evidence was submitted to the Duma parliamentary hearings on land on January 19th. These changes were driven by economic logic rather than philosophical conviction, according to Dr. Dmitry Lvov (Academician Secretary, Russian Academy of Sciences), who is a member of the Prime Minister's Council of Experts. More than 70% of income generated in Russia today is from the use of land and natural resources, which makes rent the natural source of public finance.

Politics Parliament is now as much a lame duck as the ailing Boris Yeltsin is a lame president. Deputies are focusing on elections in December. This political vacuum is viewed as an opportunity by Dr. Vyacheslav Zvolinsky, chairman of the State

Duma Sub-committee on Land and Ecology.

Before presiding over the Duma's parliamentary hearings on land on January 19, Dr. Zvolinsky disclosed his plan to four Georgist envoys: Dr. Nic Tideman, Ted Gwartney, Dr. Mason Gaffney and Fred Harrison (who co-chaired the Duma hearings).

Dr. Zvolinsky's game plan was disclosed in the resolution which he submitted for approval at the hearings. This established a working group, which would compile recommendations to the Duma. Dr. Tanya Roskoshnaya of the St. Petersburg-based Land & Public Welfare Foundation was nominated as one of the fourteen members of that group. According to the resolution, which was supported unanimously, the working group would be guided by the principle that "Rent has to become the base for public revenue. Only this will liberate citizens' profits and enterprise from unfair taxation." Dr. Zvolinsky wants this principle enshrined in the constitution.

Dr. Zvolinsky now plans two more parliamentary hearings this year, to undertake the groundwork for bills on land rights and associated tax reforms. He will submit the bills to the new Duma next January. But he also wants the people with power in Russia to understand that rent-as-public-revenue would have an enormously beneficial impact on the larger financial system — which is why he is organizing a two-day conference on this theme to be held this May.

Academia

The Academy of Sciences is actively highlighting the benefits of switching public finance onto rent. Leading the economists is Dr. Lvov.

The Academy and the Council of the Federation (Parliament's upper house) plan a conference in March at which the "White Book" on the Russian economy (published by the Academy), will be launched and circulated to the governors of all 89 regions. The chapter on public finance was written by Fred Harrison with co-authors Drs. Tideman, Gaffney, Roskoshnaya and George Miller of Britain's Wolfson Institute of Preventive Medicine. One of the four papers commissioned by Dr. Lvov for this conference is by Fred Harrison, on "Corruption as Social Process: The Rule of Law, Rent & the Mafia model of Economics." *[An overview of Harrison's work can be read in the excellent December 1998 issue of Land and Liberty — L.D.]*

To mobilize scholars and politicians behind a new approach to transforming society, Dr. Lvov will use the March conference to launch a manifesto, calling for tax reforms that would unite the political factions behind a program for rescuing a society that is

suffering a net loss of about one million people a year through poverty and psychological trauma.

The thrust of these trends is in the direction of what is known as the Single Tax. Can Russia hope to adopt this fiscal policy which, despite valiant attempts in the past, has always been defeated?

Dr. Zvolinsky is determined to give Russia the choice. But to do so, he has to muster powerful political support. To this end he joined the Duma faction of Deputies called "Our Home is Russia" — otherwise known as "the party of power". The head of the faction is Victor Chernomyrdin, who presided over Russia as prime minister for five years until he fell victim to one of President Yeltsin's bouts of blood-letting last year.

Rent-as-Revenue: a Political Winner?

Chernomyrdin met the Georgist delegation in his grand office in the Duma on January 19th. In response to questions, he said that the land question was the most difficult problem he had faced during his years in the Kremlin. But he was determined to help anyone willing to formulate new approaches to property rights and public finance. He said that he had just returned from a conference in Berlin where he was asked about the problem of land ownership, and he was evidently pleased that he could announce that the Duma was holding parliamentary hearings on the issue that very day!

Chernomyrdin said that he backed Dr. Zvolinsky's plans to promote rent as public revenue, and that he was ready to deploy his connections with the World Bank to assist the project. This raises intriguing questions. As the former boss of *Gazprom*, one of the world's most valuable monopolies, he could be expected to favor the privatization of rent. But Chernomyrdin is playing a deep game. He wants to be President of Russia. To this end, he will seek election to the Duma in December, which will provide the platform from which to launch his bid for the presidency in June 2000.

Chernomyrdin, as the leader of an influential faction in the Duma for six months prior to the presidential elections, will be motivated to promote policies that the public would perceive as being in their interest. Will he take his cue from Dr. Zvolinsky, to promote the rent-as-public-revenue policy? That strategy, it appeared to us, would be a vote-winner — probably acceptable to the majority in the Duma.

The Communist faction will probably remain the largest bloc of Deputies after the December elections. The social component to the rent policy would appeal to their instincts. The Agrarian bloc of Deputies exercises enormous influence over land policy. From the

statements delivered by their representatives at the January 19th hearings, their support for the rent policy can be taken for granted. The policy delivers the mechanism that they have been seeking for the last five years: a practical means of preventing land speculation.

The pro-market factions, notably Grigory Yavlinsky's *Yabloko*, would find it difficult to obstruct the rent policy, for several reasons. (1) The policy is embedded in the market mechanism, and it favors capital formation, which the "liberal" factions promote as priorities of reform. (2) The pro-rent/revenue policy is actively favored by a group of Deputies from St. Petersburg who carry influence within *Yabloko*.

The fate of these determined attempts at educating the public about the benefits of fiscal reform cannot be predicted with certainty. Will the IMF drop its objection to Primakov's cut in VAT and lend Russia the money she needs to get beyond the immediate crisis? Will Primakov's wage-and-profits tax cuts deliver increased employment, or will they lower revenue and provoke another budgetary crisis? Will the grand strategy outlined above be thrown to the wind as a result of an early presidential election precipitated by Yeltsin's failing health?

Activists have no choice but to accelerate the intensity of the work that was begun six years ago. The overriding need now is to explain how fiscal reform would unite the people of Russia behind a common program of moral and economic renewal; and describe why the rent policy is the single most powerful problem-solving tool that they need to overcome many of Russia's problems. GJ

Rent Scam Sends Russian Interest Rates Soaring

The link between resource rents and Russia's astronomical rates of interest have been exposed by an expert in international finance, Prof. Alexandr Nekipelov, Director of the Institute for International Economic and Political Studies. Prof. Nekipelov explained, in the December, 1998 issue of *Land and Liberty*, that the middlemen who corruptly stole rental income bumped up interest rates. Producers of energy and metals would sell to Russian middlemen at low prices. They then sold at world prices, and pocketed the difference. But, the middlemen had no liquid cash with which to make these purchases. They had to borrow – and, because they stood to gain very high profits, they were willing to pay enormous rates of interest. Thus did the resource rents of Russia's prodigious exports of raw materials fail to provide any revenue for the people of Russia – and in the process, these "newborn businessmen" ratcheted up interest rates to impossible levels!

And how did the fledgling market's seasoned capitalist advisors respond to these abuses? According to Prof. Nekipelov, "The IMF ignores this process. They just don't understand how our economy functions."