FRED HARRISON in MOSCOW

IMF BLOCKS RENT REVENUE STRATEGY

EVIDENCE that the International Monetary Fund actively opposes the introduction of a rent-based fiscal policy has been obtained by Nicolaus Tideman, an American professor of economics.

In the past two years, Prof. Tideman has made extensive visits to countries of the former Soviet Union, to explain the powerful attractions of a new approach to public finance.

That strategy entails the abolition of taxes, and replacing the lost revenue with rent from land. The theoretical attractions of the policy were elaborated by 30 major US economists and property specialists, including Nobel prize winners Robert Solow, James Tobin and Franco Modigliani, who realized that the clean-slate start facing the ex-communist countries enabled them to create conditions for the most efficient market economy in the world.

They noted that there was a risk the former communist countries might "adopt features of our economies that keep us from being as prosperous as we might be. In particular, there is a danger that you may follow us in allowing most of the rent of land to be collected privately".*

The economists know, from empirical evidence and the theoretical insights of the past two centuries, that optimum economic results are achieved when taxation is replaced by rent-revenue to finance public sector projects.

PROFESSOR Tideman took that message to the East. He was welcomed practically everywhere.

In Moldova, the First Deputy Minister, Mr. V.S. Kitsan - who had been visited by Tideman - wrote to the professor from Virginia on January 29 to say that they had introduced a land tax law. He added: "Your interesting work should be studied more deeply for the purpose of practical application in the future."

Two months later the professor visited the IMF's plush offices in Washington, DC, to lecture to the Fiscal Affairs Division. He did so, knowing that the IMF - on which the eastern countries are heavily reliant for aid to reindustrialise their economies - was hostile to the rent-as-public revenue policy.

And as he delivered his lecture at a private seminar, his fears were confirmed: he had hit a raw nerve.

"I couldn't get them to look at me," recalls Prof. Tideman, who is a third-generation advocate of the fiscal philosophy most prominently associated with the American social reformer Henry George.

The evidence that the IMF was an opponent of this fiscal reform came during a private meeting between Tideman and George Kopits, head of the Fiscal Affairs Division. Present at that meeting was one of the IMF's economists, Fred Ribe, who had visited Moldova as part of an IMF delegation.

Recalls Prof. Tideman: "Ribe told me he had just come back from Moldova. They told me that the Moldovans wanted to tax land, and they discouraged them. They were spouting the party line; their corporate people in general take the view that land taxation does not work.

"They explained that various under-developed countries had passed taxation on land, but they hadn't been able to get people to pay. The result was that nothing happened, and they had to find other sources of revenue."

MIGHT the IMF modify its opposition? Prof. Tideman, speaking after delivering a lecture on the ecological benefits of fiscal reform at a conference in St. Petersburg, said that he hoped the IMF might mellow in its attitude.

He says: "They might be willing to see, now, that their standard position - that it cannot be done - might not be valid."

He has proposed to the Fiscal Affairs Division an empirical investigation into the link between economic growth and the taxation of land. "I have got a PhD research assistant who has gone to get data on taxation on land around the world, to do a statistical estimation project. It is possible that that kind of thing might have an impact on the IMF."

• John Strasma, a professor at the University of Wisconsin, has uncovered one reason for the World Bank's hostility toland value taxation. Bank economist Hans Binswanger arranged a loan for Argentina that was supposed to be used to measure the value of land for tax purposes. But President Alfonsin did not use the money for its intended purpose, which has now coloured Binswanger's attitude to the policy of rent-for -public-revenue.

* The full text of the Open Letter appears in Richard Noyes (editor), *Now the Synthesis: Capitalism, Socialism and the New Social Contract*, London: Shepheard Walwyn/NY: Holmes & Meier, 1991.