

Russian Update 5th of November 1993

from Fred Harrison

THE RUSSIAN FUND

Twelve months ago we established the Russian Fund. Our aim: to help Russia understand that she had a choice. She could now choose to adopt the most sophisticated system of public finance in the world. As almost all the great economists of the past two centuries have testified, the cornerstone of this policy is the treatment of land-rent as public revenue. Any deviation from this principle produces sub-optimum results. The rest of us have lived with the consequences of the Second Best solution, but there is no reason why the Russians should now do so! This policy would render unnecessary the taxation of people's incomes from labour and capital.

Many of you responded magnificently, and the Russian Fund was able to underwrite a series of seminars that welcomed our proposals, and our reports were jointly published as pamphlets by Eco-Grad in St. Petersburg.

All seemed to be going well, until Boris Yeltsin signed Decree No. 1767 on October 27. The news was flashed around the world: the people of Russia were now allowed to buy and sell land. A large pall of gloom must have descended around the globe as you read the reports.

I was in St. Petersburg, on Oct. 28, when the decree was published. I was depressed - for all of 12 hours. Then I consulted Tamara Chystyakova, Eco-Grad's director. And I reviewed my notes, and CIT's track record. And the gloom evaporated. So the Russian Fund is still fighting for social justice in Russia on the basis of rent-as-public revenue. But I decided that, if we were to continue fighting, we would need more money. This, in turn, obliges me to provide you with a full appraisal of the current situation. Here goes...

A SEMINAR IN MOSCOW

Seven specialists assembled for a seminar on Oct. 24. The event was organised for us by the State Committee on Architecture and Construction, which during the summer had commissioned four reports from CIT. Philip Day flew from Australia, Ted Gwartney, Richard Noyes and Prof. Nic Tideman came from the USA, and Ronald Banks and Sir Kenneth Jupp MC accompanied me from Britain.

Stories about Yeltsin's land privatisation decree began to leak. We discussed them with one of the president's senior aides, Pyotr Filippov, who is head of the President's think tank on social and economic reform. We have an excellent working relationship with Filippov: he even agreed to preside at our press conference on Oct. 26.

Filippov warned us not to be misled by the language that they were using, especially the word "ownership". But was there scope for ambiguity? Yeltsin's decree proclaimed the right to buy and sell land; and of the obligation of the State to pay compensation if it took people's land. I re-read Filippov's statements at our press conference. This is what he said:

"It is not right to regard the State as the effective owner [of the land]. From this point of view it is important to take away the property from the owner and give it to the population. But at the same time we will ask them to pay rent."

Even though they would give land to users, which could be bequeathed and mortgaged, "at the same time there are no obstacles to change the taxation system in the way that everybody who will become possessors of the land - we can use the term 'owner' in the Russian understanding - will have to pay rent. And it is possible to make land rent the main source of revenue for Russia. So once more I invite you to understand that very often we use the same terms but the sense of the words is different."

In Filippov's view, "possession of the land without the right to sell it belongs to communism. So we will use the term 'ownership' and in fact it will be the same as 'possession' in western understanding, and we will introduce the system of payment of rent for the land."

Mr. Filippov focused on the word 'possession' because that is the word that we now use as a substitute for 'ownership'. The legal and administrative framework that corresponds with the Georgist philosophy was defined in an essay by Sir Kenneth Jupp - who spent 15 years as a judge in the English high Court - which we have just published in Russia.

Filippov appears to be deadly serious about rent-as-public-revenue. But Yeltsin also has other advisors, including US economists who are not friends of optimum policies of public finance. But Filippov's words are, if not a promise, at the very least a prospectus. But what a prospectus!

EDUCATING THE POLITICIANS

Can we rely on Filippov's intentions? Judge for yourself, taking into account the following facts:

* He told us that he will use abridgements of our six pamphlets as briefing papers for the pro-Yeltsin candidates who are seeking election to Parliament on Dec. 12. He agreed to use our version of the abridgements.

* Because of the poor turnout of journalists at the Press conference, Filippov told our colleague, Tanya Roskoshnaya, to prepare a Press release, associating his name with our fiscal policy. His office circulated the statement to the media.

* As soon as the new draft laws on property were available, said Filippov, he would invite Sir Kenneth to provide a critique.

Put that lot together, and it is clear that we still have everything to play for - if we keep on fighting. That is the view of those politicians in cities like Novgorod, whom we consulted, who have asked us to continue to work with

them to provide the practical mechanism for switching public revenue onto rent (see the September issue of *Land & Liberty*).

TALKING OF FIGHTING

As it happens, there was something of value in the decree: Yeltsin gave his Council of Ministers one month in which to prepare the rules for allocating land to the Cossacks.

We had already received advanced warning of this project from Dr. Eduard Gorbunov of the Institute of Economics (Russian Academy of Science). He had read our pamphlets, and had written a favourable critique in Moscow's *Independent* newspaper. Dr. Gorbunov was then placed in charge of the economic aspects of the Cossack resettlement project - and he invited CIT to contribute to the land-related aspects of what he called the 'revitalisation' of the Cossack clans.

Dr. Gorbunov left us in no doubt that it was the rent-revenue features of Georgist philosophy that attracted him. Speaking at the Moscow Press conference, he said that once the legal basis for the Cossack communities had been created, "the approach that you propose can be applied in this case, where you are dealing with a population that occupies a definite territory."

Nic Dennys, our colleague in London with an abiding interest in the fate of ethnic minorities, has agreed to lead our team on this project. (I suspect that, before he can gain the confidence of the Cossack clan leaders, he will have to learn how to slice a turnip in half with a sword - at full gallop on horseback!).

AND SO TO ST. PETERSBURG

Our second press conference was more successful: we received a 3-minute slot on TV news, two radio broadcasts, three daily newspaper stories; and a number of weekly newspaper and magazine articles are in the offing. *Rush Hour*, a major evening newspaper, wants to publish Prof. R.V. Andelson's article on Henry George, which he originally wrote for a leading German newspaper (reprinted in the July issue of *Land and Liberty*).

In addition, two Moscow newspapers have asked us to contribute articles, an opportunity which I will exploit to the full. Meanwhile, I was able to collect copies of the town planners' magazine which serialised our first pamphlet in two parts.

Looking, now, to the future: demands on the Russian Fund continue to mount.

* A delegation travelled up from Tatarstan to meet us in Moscow. Their republic is important: it won't hand over taxes to Moscow, displaying a streak of independence that suggests we just might achieve a sweeping victory for fiscal reform on a scale that would shake the Kremlin. To start with, we are invited to send a team to the capital (Kazan), to sell the philosophy to the politicians. If successful, we are invited to write all the laws necessary to implement the reform. A tough assignment, but who said it was going to be easy?

* In St. Petersburg, our seminar for the economic development and finance committees resulted in our being asked to write a report for the city council. I agreed, on condition that we received an invitation signed by both the Council Chairman and the Mayor. I have had enough of the competition between council factions in the city, and I do not intend to devote any more time or money to St. Petersburg without a clear indication that they are united in their approach to considering our proposals. The officials at our seminar made it plain, that most of them agreed with us. Self-interest has so far prevented a coherent strategy for using the city's real estate. The appropriate invitation will come, and Dr. Fred Foldvary has agreed to undertake the research and write the report.

AND SO, TO THE BOTTOM LINE

The single most important influence on my decision to fight on in Russia was a story told to us by a scholar at the Institute of Economics, who turned up at one of our seminars. She had read our pamphlets, and for some reason this encouraged her to search the archives. She discovered that, following the revolution of February 1917, the Kerensky government planned to introduce Georgist land-and-tax reforms. The plans crystallised during the summer - but too late: the Bolsheviks struck in October, before the reform could receive a full public airing.

At the same time, the Russian Georgists (as I now wish to call them) were on their own, as they sought to prepare the legislation for implementing budgetary-and-land reform. One of them, I was delighted to learn last week, was A.V. Chyanov, one of my scholar-heroes. (He was to end up in front of a Stalin firing squad.)

This time round, Russia's Georgists have the support of Georgists from around the world. Are we going to let them down? If we do, I believe that Russia could fall prey to another revolution: Yeltsin's sledgehammer - the one handed to him by the IMF - is poised to destroy the lives of millions of people, over the next 12 months, unless we influence his plans.

Tamara and Tanya have asked me to tell you that they need your support.

The Russian Fund was severely devalued over the last two months. In June, a bunk on the overnight sleeper between Moscow and St. Petersburg cost \$2. Last week, we had to pay \$40. In thanking those of you who have recently contributed to the Fund, I have no alternative but to appeal for further help.

Your team of dedicated Georgists is willing to press on. We have mobilised experts from Seoul, to the far east of Moscow; from Cape Town in the Southern Hemisphere, to LA in the west. Those Georgists have deployed skills second to none produced by the IMF, but it is their humanity that has left an indelible mark on the leaders of the Russian people. But they cannot make headway without the airfares! It's entirely up to you: you are paying the pipers, so you call the tune.