

RENT & THE SOLUTION OF SOCIAL, ECONOMIC AND ECOLOGICAL PROBLEMS: A VIEW FROM RUSSIA

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THE WORLD community is now reviewing the first 5 years' results of the practical realisation of the decisions of the UN conference for environmental protection and development in Rio. The decisions were supposed to overcome the traditional approach of trying to solve social, economic and ecological problems separately. It was especially emphasised in Rio that, in the 21st century, it will be important to make the world order more fair because it is very difficult to provide for the security of our planet if the gap widens and deepens between rich and poor in this unjust world.

The 5 years since the Rio conference have shown that ecological threat for the world remains and is increasing with the growth of poverty. Unfortunately, the relations of mankind with nature are affected by national selfish interests, which prevail. The leaders of the developed countries prefer to ignore illegal deeds, such as the buying and selling of land and natural resources; problems associated with the restoration of nature and the rehabilitation of countries that are suppliers of raw materials. Not enough attention is paid to the necessity of structural changes of public finances (transfer of the taxation burden from labour and capital onto payments for nature use). The idea that money can be deployed to rehabilitate nature itself is not widely understood and supported.

In the light of the Rio documents Henry George's ideas about single tax sounds not only modern but they are today even more actual. They were not used at full measure for the Agenda for the 21st century, though criteria of the sustainable development which took into account Georgist approach, had been proposed by Michael Young from Australia in his book, commissioned by UNESCO as part of the "Man and biosphere" programme*.

It was recognised at the Rio conference that the principle "a polluter pays" does not solve the problem of the search for the optimal sources to finance ecological needs. It was proposed to add the more modern concept "the user of natural resources pays". But if we want to avoid ecological and social crises, to have a fairer world order, the only way is to implement Georgist principle that "a user of nature pays at full measure for the benefits he receives".

In the quest to reduce the contradictions and to find a mechanism to withstand global ecological crises, Russia has a special responsibility. This is not only due to the fact that Russia occupies one-seventh of the land surface and is very rich in natural resources, but also because of its climatic conditions and the vulnerability of its northern ecosystems to the anthropogenic burden. For despite the rich resource base, Russia's potential is average or less favourable for living and economic use. To provide a sustainable development under these conditions means higher costs of housing, more social spending and more energy used per head of the population. In this context Russian politicians have to be very cautious about adopting the western stereotypes that have been recommended by western advisers in the course of the reforms. These have resulted in a widening of the gap between different groups of population. In contrast, Georgist solutions could have helped to solve the social, economic and ecological problems.

It may look as if there are no obstacles to use rent as public revenue in Russia. Since

1992 it had been declared in the laws that rental payments are an essential part of public revenue. But the proposed methods for it have very little to do both with rent according Henry George and rent according Ricardo. Payments for the use of natural resources in addition (not instead of) other numerous taxes are making the situation of the producers unbearable, though estimates suggest that 2/3 of public revenue could be collected this way instead of 7% now (including excises).

The new Tax Code, which received its first reading in the Duma in June, lacks any understanding of the essence of rental taxation, though it is declared in the preamble for the Code that it has to provide "widely recognised principles of justice, equality and rationality" and "equal conditions for the activity of all tax payers". Rental payments are the best for realisation of these goals. But the Tax Code proposes a mechanism (for all kinds of natural resources) which does not permit the collection of mineral rent. The Tax Code does not include anything new to realise the opportunities and mechanisms for gradual replacement of the profits tax by rental payments in the raw materials industries. Instead, payments for natural resources are treated as one more tax to be included into the cost of production. It means that the consumer will pay for it. Russian authorities have demonstrated once more their full ignorance of the fact that there are deep historical roots in Russia in studies of theory and methods of rental taxation.

During the Soviet period the regulation of rental relations used to be done with the help of the mechanism of economic price regulators. For example, in practice the purchase prices for natural raw materials were highly differentiated. The change to the market allowed the implementation of other ways to extract mineral rent. But rapid liberalisation in 1992 totally destroyed former price methods together with the data base, which could be used for market purposes to determine a nominal market price to start with. Those nominal prices could be later adjusted on the base of new market evidence. But instead all natural resources were given away to monopolists - rent seekers - to use them without any control.

The actions of Russian radical reformers did not correspond to the Rio decision to halt the use of nature as if it were a "free commodity" and to adopt economic methods that would achieve sustainable development. Russia has a very sad experience of dogmatic attitude to economic theories and political doctrines (e.g. Marxism). And it is bad to permit the same towards Henry George's ideas, which were formulated when there were no signs of global ecological crises. We have to develop his ideas and adjust them according to present realities. We have to define the optimal combination of principles of freedom for entrepreneurship and economic regulators to neutralise the actions of corrupted civil servants and speculators, and to increase the effectiveness of decision-making in the use of nature. This whole prospectus must also include the destruction of the monopoly power which imposes limits on access to information in Russia, which restricts the analysis of the issues upon which I have touched above.

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REFERENCE

* M.D. Young, *Sustainable Investment and Resource Use*, Paris: UNESCO, 1992.