

Yeltsin's Tax Code abolishes Land Tax

FIVE YEARS ago Boris Yeltsin was asked if Russians would be able to buy and sell land. His reply was consistent with the character and history of the people of Russia. He said: "You don't sell your mother."

Five years later, President Yeltsin wants to sell his "mother". And the draft Tax Code is his latest ruse to privatise the rent of land.

As part of his strategy, he plans to scrap the land tax in his overhaul of Russia's crippling system of public finance.

The government is barely able to raise two-thirds of the revenue that is supposed to be generated by taxation. Economics supremo Anatoly Chubais has warned that this failure is putting the viability of the state at risk.

Now, to improve the efficiency of collection - and under pressure from the IMF - nearly 200 taxes are to be merged into 30 taxes under plans announced in May.

The draft of the Tax Code was published just before a roundtable conference in Moscow which gave me and three American economists the chance to indict the tax plans. We did so as we sat opposite the architect of the Tax Code, deputy finance minister Sergei Shatalov.

We tore into the plan to retain taxes on labour and capital while eliminating the one tax that treated land as a unique fiscal base.

It was a historically unique scene, in the neo-classical building that used to house the stock exchange before 1917. Over the past two centuries, tax reformers have been forced to advocate the viable alternative *after* nations had introduced sweeping changes to their tax structures. This time, however, the reformers were in the right place at the right time: at

precisely the moment of change where the options still remain open.

The conference originated with my meeting with Dr Dmitry Lvov, head of the economics section of the Russian Academy of Sciences, last December. He said that we should bring western economists to Moscow to analyse his country's crisis. I agreed, and the New York-based Schalkenbach Foundation funded the appearance of three US economists.

A critique of western tax systems was presented by Dr. Dick Netzer, the author

The Georgist Model

RUSSIA'S economist academicians want to publish an extended treatment of the vision of a Georgist society.

Next year a book will be published by the Russian Academy of Sciences called *Russia at the Threshold of the 21st Century*. The editor will be Dr. Dmitry Lvov, Secretary of the Economic Department of the RAS. He has invited the London-based Land Policy Council's Fred Harrison to assemble a small team of specialist writers who can provide an extensive description of what Russia would look like if she adopted the Georgist model - treating the rent of land and natural resources as the main source of public revenue.

Such a study would be unique. It requires the methodical prediction of trends in a resource-rich country with a very high scientific and technological potential.

The study would entail an examination of how social institutions would evolve if the sources of social conflict in contemporary societies were eliminated. The methodology for this study could become a model for analysing the problems and potential of other countries.

of the most influential book on the property tax; the role of financiers in land speculation was analysed by Dr. Michael Hudson; and Dr. Nic Tideman, President of the Schalkenbach Foundation, presented the Georgist alternative.

We received powerful support from senior members of the Duma as well as representatives from private enterprises.

THE FIGHT is now on to reshape the Tax Code. The widespread opposition lacks a focus. There is no viable alternative other than ours.

The first step is to prepare a critique of the Tax Code for translation and circulation to every member of the Duma. The chairman of the federal parliament's Sub-Committee on Ecology, Land and Natural Resources (Dr Vyachislav Zvolinsky) has offered his services.

Dr. Zvolinsky is a thorn in the side of the political parties which are prepared to reach cozy deals with the Yeltsin government. Last year, as a result of my previous dealings with him, we published a critique of the Land Code. One consequence, Dr. Zvolinsky says, was that the Land Code was stalled and drastically amended. Its immediate fate remains uncertain.

Despite President Yeltsin's determination to privatise rent, he has not been able to achieve this through the Land Code. But his alternative strategy is through the Tax Code. This consists of 1,143 Clauses in a volume of 332 pages.

If the rent-revenue philosophy can be coherently developed in terms that are comprehensible to Russia's politicians we might be able to mobilise a coalition behind our proposals.