

RUSSIAN SCIENTISTS BACK LAND-RENT FOR PUBLIC FINANCE

LEADING academicians are developing a plan for Russia that locates the rent of land and natural resources at the heart of reform. The initiative has been taken by Professor Dmitry Lvov, deputy director of the Russian Academy of Sciences' Central Economic and Mathematical Institute.

Last year, he and his team calculated that the rent of oil and gas alone was sufficient to meet the budgetary needs of the Russian government. In *Practical Course of Economic Reforms in Russia*, they pointed out the rental value of sub-surface minerals would be sufficient to abolish or reduce all forms of taxation from the incomes of enterprises and citizens.

"Using all natural resources, minerals, land and water should be taxed. The calculations confirm that the rental payment for production of oil and gas alone in world prices could amount to about \$30 billion of budget income annually."

With a properly organised system of taxation "the total income that the state receives from natural resources is sufficient to pay for all budget needs and to contribute to the pension fund. Therefore it should be possible to abolish the value-added tax, to reduce the profit tax, to free enterprises from contributions to the pension fund and to free most employees from the income tax."

Their calculations revealed that this reform of public finance would not raise the general level of prices. This was an important finding, for inflation is a problem that is bearing heavily on policy-makers: they are under pressure from the IMF to stabilise the financial system as the price of financial aid from the West.

The Lvov strategy would require a "special mechanism of realization". And that was why the Russian Academy of Sciences called for help from the London-based Centre for Incentive Taxation.

Professor Lvov had heard CIT director Fred Harrison advocate the

rent policy at a conference in Moscow in December. From his seat on the platform, the professor raised his thumbs in agreement. He was later to say in his speech: "Why does our government listen to foreigners, but will not listen to us?"

Prof. Lvov lost no time in arranging a special seminar for academicians to listen to Harrison. This was convened on February 22, at which the work currently being performed in Russia by CIT consultants was described by CIT chairman Ronald Banks. Banks and Harrison gave an account of the institutional arrangements - the "mechanism" - that was being developed for Russia in cooperation with officials of Novgorod, the original capital of Old Russia.

After the seminar, Prof. Lvov faxed a message to London: he wanted to fly to England to discuss joint research projects. The areas of research in which they wanted to collaborate included:

- institutional preconditions for incentive taxation;
- methods for evaluating winners and losers;
- how to measure the efficiency of different fiscal policies with the goals of financial stabilisation and the restructuring of the economy; and
- the feasibility and efficiency of market-oriented environmental taxes.

CIT is testing the rent-as-public-revenue theory to conditions in Novgorod, which last year expressed enthusiasm for reforming the budget as a way of stimulating the economy.

Since then, President Yeltsin closed down the council and left the unelected officials to run the city. And those officials are now under pressure to sever their connection with CIT.

The programme being developed in Novgorod is for a dramatic reduction in the taxes on profits and incomes of employees, in favour of drawing revenue based on the value of land. This policy relies on both its superior efficiency in raising revenue, and also on the ethical principle that

the rental value of land is a community-created income.

This fiscal philosophy has now come under attack from Olga Kaganova, a St. Petersburg real estate dealer who had formerly helped Novgorod draw up its land zone map.

Ms Kaganova is urging Novgorod Land Committee chief Nickolay Shestakov to sell his city's land. And in conversations with city officials she has dismissed the Georgist policy as "utopian". For support, she has drawn on evidence provided by a US think-tank, the Lincoln Institute of Land Policy, which is based in Cambridge, Mass. Ms Kaganova wrote in a letter to the Land Committee:

"For example, if we remember the well known Pittsburg experiment, which is often mentioned by Henry George supporters, not long ago there appeared information that the effect of separating taxation of land from taxation of buildings is extremely low, and the construction boom was caused by quite different factors. This fact was mentioned by Mr. Robert Einsweiler, the director of Research Programmes for the Lincoln Institute for Land Policy, the most recognised institute in the world continuing to work out Henry George's ideas."

Pittsburg has a long tradition of taxing land values more heavily than the value of buildings. This two-rate approach to the property tax was investigated by two US economists whose conclusions were published in a Lincoln Institute monograph (see review, page 24).

The Lincoln Institute is taking an interest in land policy in Russia. It has despatched several of its associates there on lecture engagements. And they have expressed concern at the influence of Georgist activists in Russia. One result was a telephone call to Fred Harrison in London from a Georgist activist, who said he had been asked by a member of the Lincoln staff to inform Georgists not to say that land in Russia was common property.