

## PRIVATE RENT SEEKERS IN RUSSIA FEAR GEORGIST CAMPAIGN

*A DETERMINED bid to combat the spread of Georgist reform plans has been launched in Russia. A document is now being circulated among Russian municipal authorities that seeks to undermine proposals for a system of public finance that would eliminate taxes on consumption and production.*

*The document is signed by Dr. Raymond Strike, the Washington, DC-based Program Director of the U.S. Agency for International Development and Co-operation with Russia in Housing, and Ms Olga Kaganova, who describes herself as a member of the Honourable International Society of Land Economics, St. Petersburg.*

*Ms Kaganova is directing her efforts against the London-based Centre for Incentive Taxation, whose consultants have now spent more than a year working with city officials in Russia. She is known to have personally visited officials in Novgorod, the ancient capital of Russia, to urge them to sell their land.*

*The publication, entitled "Is Russia Ready to Accept the Theories of Henry George?", was translated by CIT's St. Petersburg associate, Mrs Tanya Roskoshnaya. It is reproduced here in full:*

FOLLOWERS of the theory of American philosopher H. George - both in Russia and abroad - persistently advise the government of the Russian Federation to follow two basic principles while creating the systems of land relations and taxation:

- a) to preserve public ownership of land and to rent it to private users; and
- b) to increase public revenue mainly by collecting payments for the use of land.

This radical view has wide support in modern Russia. That is why it is important to pay serious attention to this theory.

The Georgists' program includes the following main statements:

1. To develop rental land markets only, selling leasing rights at auctions or using the auctions to determine the rental value of land;
2. Abolish the profit tax and income tax, and collect land rent only;
3. Collect the full land rent through rental payments for leasing rights to land;
4. Review land rent at least annually and even more often if there are high rates of inflation;
5. Attract investors by foregoing payment for the land for the first 3-5 years, but to include in the lease the obligation to pay full land rent in the future.

The philosophical base of this program contains three main statements:

Land is given by God, that is why it belongs to everybody and cannot be in private ownership.

Thus, private owners are expropriating national wealth, which is inadmissible.

Public revenue should be collected from the land tax, land being rented, and not from taxation of other factors

of production such as labour and capital.

Practical experience of the proposed system is rather scanty, for there are few governments in the world which implement such a radical program. Those who dared did it only partly. H. George's supporters usually use the example of Hong Kong and several cities in the United States, where a real boom in construction industry took place after the tax on buildings was reduced (though all other taxes were preserved).

The land tax is attractive for its simplicity. But it is very important to examine the proposed program thoroughly before the final decision about its practical implementation in Russia is made. We would like to give the following considerations:

1. Which of the models "private ownership" or "leasehold" will be more effective for the development of the property market will depend, theoretically speaking, upon the bundle of rights given by each of the models. If in the new land legislation there will be the opportunity to lease land for 99 years, to sublease land freely and to sell the leasing rights freely, then the "leasehold" model will be the stronger.

2. In modern reality legal guarantees of property rights and leasehold rights given by city authorities are not the same. It looks as if property rights received from the State suggest more guarantees. While leasehold rights determined by leasing agreements that state the most important terms, such as duration, review of rent, bases and possible increase of land rent, compensation to the leaseholder in case the lessee does not conform to the terms of leasing agreement, etc. Under the conditions of relatively lawless culture of society, extreme nihilism of town authorities, it is possible to foresee that the leasehold model will produce a lot of cases where interests and rights of leases

will be neglected. This will, in turn, influence the flow of investments into city real estate.

3. From a political point of view, refusing to recognise private ownership of land means that one of the fundamental rights of the citizen that is mentioned in the new Russian Constitution is not recognised. It is important to remember that the promise to introduce private ownership of land was one of President Yeltsin's main declarations; should this promise not be fulfilled, it will automatically mean that the reform programs are discredited.

4. The introduction of the proposed reform of taxation will put Russia outside the international system of investment, because foreign capital will be double-taxed. In Russia, investors will pay the full tax which will be called "Land payments" and at home "profits/income tax". If the taxation systems in countries are similar, there are agreements between States about mutual recognition of tax liabilities.

5. There is no other way to determine land rent (if it is possible to do so at all) than to determine the revenue received from the property and to try to separate land rent from the total revenue. This is done when assessing the land value according to the income from real estate. But as in any case everything is based on income, which is the base for determining profit, debating whether to tax profit or to collect land rent is more an argument of terminology than an issue of substance.

6. The transfer from taxation of profits to collection of land rents is fantastically labour-intensive, if possible at all. It is well-known that a lot of enterprises disguise their profits, but at any rate, procedures to register tax payers and their profits exists, and it works. The question is how to register rental income when the majority of legal entities are not the direct land-users, only renting a part of a building and very often not at their legal address, and sometimes illegally. There are no renewed registers which include, at least, official users of buildings, or full land cadasters of direct land users. At any rate, this is the case for the majority of cities. Besides, it is quite obvious that if land payments depend on the incomes of enterprises (and this is, as we see it, the basic idea for extraction of land rent and systematic review of rental payments), it means that enterprises will disguise their incomes as they are doing now with profits. This is the bookkeeping technique.

7. The example given by Georgists of the construction boom in the U.S. cities where taxation of buildings was abolished and they are only paying land tax, can perhaps be interpreted the following way: advantages rarely appear, and then only in comparison with surrounding cities which preserved the former system. But it is possible to imagine that such a reform took place everywhere, as it is proposed for Russia, then the effect resulting from this difference in conditions will disappear. Besides, not long ago, there appeared evidence that if we will fulfil exact econometric analysis, results of the well-known Pittsburgh experiment can be explained only to a small degree by changes in the taxation of real estate.

That is why we have to determine the clear criteria for evaluating the results before we start an experiment on any scale, and these criteria should be analysed by independent experts, perhaps international.

8. Nowhere in the world do they manage to collect the full land rent. This is recognised by Georgists themselves. The full realisation of this idea will possibly destroy the advantages of the centres of cities and their attractiveness to investors. For Russian cities it will be disastrous because centres are in particularly poor condition.

9. Regular review of land rent, for example annually, will of course discourage investors. Obviously, in the course of time, this problem will be sensibly solved. Authorities of those cities who will be especially active will gradually understand that they are losing investors. But now, when there is no experience of sensible land policy, and the cities need urgent investment, such orientation of local politicians can be especially harmful.

Arguments given here confirm our opinion that there are no reasons to adopt the programs of Henry George followers for payments from the land. More than that, we are worried that Russia will start once more to experience new, practically untried ideas. The country once followed this way in 1917 and the results were rather poor.

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strategy would soon persuade new entrepreneurs that lower trade barriers would afford them greater benefits.

Unfortunately, the international trade agreements that are now proliferating on the international circuit reveal not the slightest awareness that the fiscal option would resolve most of the geopolitical tensions that are now encouraging people to turn to the gun for relief.

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An illustration: the government has guidelines designed to preserve the green belt. So who does it appoint as its chief planning adviser (he's paid £28,000 a year for a 2.5-day week?) David Lock, a consultant to development companies which are trying to override the government's green belt policies. On behalf of one of his clients, Professor Lock represented a company that bought green belt land for about £2,000 an acre and sought to get it redesignated as building land, which would produce a profit measured in millions of pounds!

Nothing wrong with redesignating land, if that's what the community wants. But could it be that the enormous increase in the price of land has something to do with pushing the price of houses beyond the means of many people? Might this not contribute to homelessness? And isn't the government charged with the duty of dealing with such a scandal?

The Prime Minister's Pontius Pilate performance on the homeless brings disgrace on himself and his government. Unfortunately, it is also a disgrace on Parliament. But that is something which does not appear to cause him discomfort.

**HENRY WINSTANLEY**