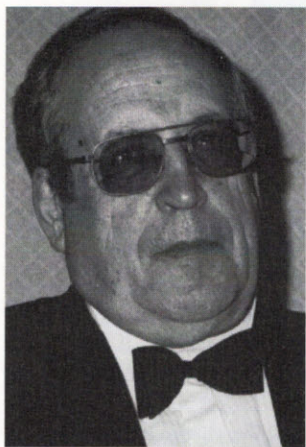


# SCHOLARS BACK GEOFISCAL STRATEGY FOR RUSSIA



■ Dr. Dmitry Lvov

RUSSIA'S academicians backed the reform of taxation in favour of rent as public revenue in a book published in Moscow in April.

The 800-page tome explained how Russia could develop in the 21st century. It identified the pivotal role of rent in the destiny of Russia. The editor, Dr Dmitry Lvov, argued in his introduction that achieving the correct balance between property rights and public finance was the central challenge faced by his country. He declared:

"The land question is not only a question of how to provide sustainable revenue for the state budget. It is a problem of how to preserve Russia as a sustainable independent geopolitical unit...The solution to this problem will to a considerable extent depend upon whether Russian citizens become aware of their connection with this integral public whole, not only from the state and political point of view but, what is more important, as an integral territorial, economic, cultural, historic and spiritual space."

The book was produced by a multi-disciplinary team of Russia's leading academicians. Dr Lvov, who is Academician-Secretary of the economics department of the Academy of Sciences, put the prospects bluntly when he told a seminar of scholars at the launch of the book that Russia had to adopt the "geofiscal system of public finance".

The book, *The Road to the 21st century: Strategic Problems & Prospects of the Russian Economy*, was launched at a ceremony chaired by Leonid Abalkin, who was deputy prime minister 10 years ago when Mikhail Gorbachev ran Russia.

Copies are being presented to Prime Minister Yevgeny Primakov, all governors of regional governments, and to President Boris Yeltsin.

The chapter on the economics of public finance was written by an international team of authors: Fred Harrison and Dr George Miller of the London-based Centre for Land Policy Studies, two US professors of economics (Nic Tideman and Mason Gaffney), and their asso-

ciate in St Petersburg, Dr Tatyana Roskoshnaya, Executive Director of the Land & Public Welfare Foundation.

Their study, drawing on a model developed by Dr. Tideman and his colleague Dr. Florenz Plassman, calculated how the Russian economy's rate of growth would accelerate through the years to 2020 if taxes were shifted off people's wages and savings and onto the rent of land and natural resources.

Dr Lvov, who is now actively canvassing this policy as a member of Premier Primakov's Council of Experts, believes this strategy offers the solution to Russia's crisis. The benefits extended beyond economic prosperity to issues of social justice.

Launching this radical tax reform, he said, "can be compared with working with bare wires under high voltage". But solutions could be developed to handle the challenge. It was unacceptable to treat private property in land as a sacred cow. Land, he wrote, "is a heritage of society as a whole". The refusal to treat rent as public revenue "is one of the main reasons which brings into life in society social injustice and inequality".

In the book, he referred back to American social reformer Henry George, adding: "His active follower was the great Russian writer Leo Tolstoy. He specially wrote a letter to the czar trying to persuade him that revenue from land is given to

mankind by God, it is not created by people and that is why it has to belong to everybody. Bolsheviks managed to develop this idea until it became absurd. They socialised land but at the same time they alienated workers from it".

People's private right to possess land, and their right to an equal share in the rent of land, had to be protected by the constitution. This would be "an important addition to the principle of equality of opportunities, and without that

equality it is very difficult to achieve social peace and understanding by all layers of the population".

The leasehold system was adequate to guarantee secure possession and the ability to transfer rights, providing that the users of land paid rent for the benefits they received from occupying and using sites.

"In Russia the land has not yet been divided between private owners. It is important to

use this unique situation and solve the problem of property rights for land not in the interests of a very small group of people but in the interests of society. We cannot use western countries as an example. Land relations there historically were developed under conditions of very strong influence of a group of large landlords."

It was important to resist the temptation of short-term gains from selling land today to finance budgetary commitments. That would

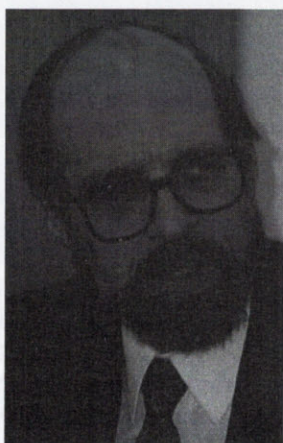
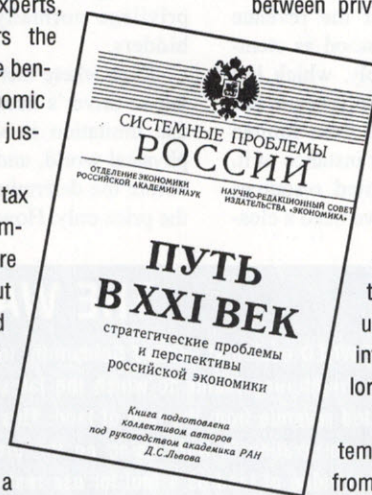
limit the ability of future governments to develop "a system of land use which combines economic efficiency and social justice". During the "reform" years of Boris Yeltsin, said Dr Lvov, rent was sufficient to provide each citizen with a national dividend. For more than two-thirds of the nation's income was the rent of natural resources. "This reality was well understood by our financial oligarchs. That is why we have had unprecedented privatisation of this revenue.

"The rental income of Russia was more than enough to cover all basic needs of the country for its defence, transformation of industries, science, education, culture and health-care. In fact, it was quite possible in principle not to tax labour and capital at all, abolish VAT and abolish payroll payments to pension funds, and exclude the majority of citizens from income tax."

The geofiscal policy would reduce the costs of production, raise competitiveness in world markets, improve the investment climate and attract foreign currency.



■ Dr. Leonid Abalkin



■ Dr. Nic Tideman

IAN BARRON

Land & Liberty Summer 1999