

# THE CREATION OF AN URBAN LAND MARKET IN RUSSIA

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“About Payments for the Land” was one of the first laws aimed at reforming Russia. Its implementation dates back to 1991, which means the Law was prepared before the beginning of Gaidar’s reforms. It was an important and well prepared law, which took into account the realities we had then and aimed to improve the whole system of land use.

Land reform was declared in Russia in 1990 but it had not started. Land policy was not clearly formulated. Unfortunately there was and still is a very sad lack of understanding of the real importance of land and its role in the economy, especially the opportunities presented during the transitional period. Few were able to see the difference between privatisation of land use and privatisation of land rent.

In the development of land theory in Russia during the Soviet period the focus was on agricultural lands mainly because it was important to equalise conditions for economic activity in different parts of the country more equal. A special methodology of land valuation in rural areas was developed. The main point here was land’s productivity. Less attention was paid to urban lands but by the time of the reforms there was considerable progress in urban land valuation as well. It was impossible to use market data, but there definitely were rental elements in the methodology and it was realistic to develop and adjust it as market conditions evolved. But shock therapy changed everything and evolutionary development was interrupted.

Since 1992 the land market developed on the basis of Presidential Decrees, and it is possible to trace a shift in the evolutionary approach which dominated the beginning towards strong efforts to copy a conventional Western system. This was a regressive (backward) movement. The process started with a decree which permitted the free use of land in some special cases. Very soon the majority of cases became very special and resulted in the refusal of enterprises to return the land they were not using themselves and decisions to use their land in another way (earn money by renting it out). The result was that even in Moscow where the land market is comparatively advanced they are able to collect payments (either land tax or leasing payments) only from 15% of land in use.

In 1995 the Government started to speed up privatisation of land under the privatised enterprises for very low “normative” prices. To persuade enterprises to do it (and there were and still are a lot of directors who are convinced that they do not need to buy land to make the productive process more efficient) purely Georgist arguments were used.

At the end of the same year a Civil Code passed both Chambers of Parliament and which made it possible to buy and sell land. The Land Code is a kind of compromise but as soon as it becomes law the corresponding chapter of the Civil Code becomes active to allow the buying and selling land. In spite of the Russian tradition it was declared land should be combined with the buildings and constructions on it. Urban lands are practically exempted from the Land Code, and separate laws are to be written. The Land Code now deals exclusively with farmland.

A considerable sum of money was given to Anatoly Chubais’s government to create a programme of reforms in addition to the money previously spent by western agencies to persuade Russia that progressive development of the economy was contingent on adopting

the West's system of land markets. One of the main conditions of the IMF and the World Banks loans is privatisation of land.

Unfortunately, no country in the world (Land Committee specialists had by now visited many of them) was able to demonstrate an alternative working system of land relations. And the realities of our imperfect world are not designed to persuade Russia's lawmakers and administrators that an alternative system was more effective. The outcome is that, in Russia today, we are creating a monopolistic land market. Leasing payments are determined by civil servants and there are a lot of opportunities for corruption. There is no proper control in this sphere, and the level of those corrupt payments is very high.

A lot of specialists who came to work in Land Committees, which were organised specially to promote land reform, promoted the privatisation process by using evidence from Western countries. They sincerely think there can be no actively working land market without private ownership. They fail to differentiate between private possession of sites, and private appropriation of the rent of land.

The situation we have now can hardly be called a market. Evidence from a number of auctions does not give reliable data. And under these conditions the President earlier this year signed a decree to ensure that information about land and real estate is treated as confidential. That is why, to make serious progress in the implementation of the rental approach, we have to unite efforts and make a break through in at least one place. This is necessary, to confirm that the model we proposing can work and work effectively.

The picture from Russia is not without hope. There are definite possibilities, for example at the regional level.

One more very important aspect needs to be emphasised - a correspondence between the tax system and rates of taxation with land rent. The Tax Code proposed by the federal government to the Duma in June is very bad: it threatens an even heavier tax burden both for the population and enterprises, but it provides a lot of advantages to foreign investors and encourages capital flight from the country.

The Tax Code (if it passes in its present form) will have a negative impact on the cities too, because they have to make a shift from collecting the land tax to a general tax on real estate (the property tax is modelled on the Western tax).

Some Russian cities have started to sell their bonds on the internal and even European market. Without proper use of the money raised they will be hardly able to repay them. The Henry George model of public finance offers a correct direction for self-financing the development of infrastructure in the cities.

During June/July, 1997, many articles in the Press levelled criticisms at the Tax Code. There is even a movement among entrepreneurs to unite efforts against the Code. We are establishing contacts with the various groups and forces, and with politicians who are ready to listen, learn, understand and correct their programmes. Our strategy is to explain to them that the creation of the Western type land market is not going to solve our problems in the cities. Publishing information to educate people in the sphere of land relations, to show them the interconnectedness of the economy and the social sphere.

But there is some progress, such as with the creation of a cadastre system. And opportunities will continue to present themselves for so long as Russian cities are desperate to find a proper source of finance: they do understand that it is better to be self-sufficient, if this can be achieved, to reduce their dependence on "the centre".

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