

# *Lithuania and Russia trip, December 1995*

*By Dr. Nicolaus Tideman, Blacksburg, VA*

Although I had been thinking I ought to visit Russia again in December, there was no obvious source of money for my travel expenses. Then Fred Foldvary told me that the Lithuanian Free Market Institute would be holding a conference on tax reform and were looking for a paper on how to abolish the corporate income tax. At Foldvary's suggestion, I was invited, and they agreed to pay for my ticket. The conference was in Vilnius on December 8 and 9. Fortunately, I was already scheduled to be in New York on December 7 for a meeting of the Schalkenbach Executive Committee.

Then Nature took over and dumped 9 inches of snow in southwest

Virginia the night of December 6-7. My wife and I woke up at 4:30 on the 7th and wondered how we could possibly get to the airport for our separate flights that morning. (And my tickets to New York and to Vilnius were both non-refundable.) After several tries, we finally made it up the hill at the end of our driveway and on to Roanoke, where all flights were delayed or canceled. Eventually the planes took off and I reached New York just in time for my meeting. Then it was on to Kennedy Airport, Helsinki, and Vilnius.

The driver for the Lithuanian Free Market Institute met me at the airport in Vilnius and drove me to the Hotel Villon, a plush suburban resort and conference center where the conference, "Shaping Tax Policy for the

Benefit of Economic Growth," was in the middle of its first day. It was attended by some of the most influential people in Lithuania and a number of foreign professionals.

My message was that a tax on income from capital is highly destructive to economic growth, especially for a country like Lithuania, which starts with such a large deficit of capital. This is because when a country must compete with other countries for capital, it cannot reasonably expect to reduce the return to capital below what is available in other countries. Investors will only invest when they expect a return at least as great as what investments in other countries offer. Thus a tax on capital does not reduce the return to capital. It merely drives

*(continued on page 6)*

# Lithuania and Russia trip

*continued from page 5*

capital away from a country until the return on the remaining capital is high enough to pay the tax and still pay the investor the return that is available elsewhere.

As long as Lithuania is going to retain an income tax, I suggested that the most harmful effects of the corporate income tax could be eliminated at the lowest cost in revenue, by treating all corporate income as income of the corporation's shareholders, and allowing a full deduction of all investment expenses in the year of the investment. This is equivalent to making the government a silent partner in new investments, paying a share of costs equal to the share of returns that it takes.

I suggested that, to the extent that revenues are lost and need to be made up, Lithuania should levy taxes on pollution and other harmful activities, and on exclusive access to land and other natural opportunities.

On Sunday, December 10, I took a train from Vilnius to Kaliningrad. I was met at the station by Marina Fedorova, who heads the effort to promote land taxes in Kaliningrad, and Eugene Aloshin, an entrepreneur who owns a radio station there and regularly finances my food and lodging costs in Kaliningrad.

Monday turned out to be a Russian holiday, but Marina still managed to arrange for a radio reporter to interview me jointly with Yuri Voevoda, a member of the Russian Duma (Parliament) who was running for reelection. Voevoda had many of the usual concerns about land taxes. I believe that I answered a number of his concerns to his satisfaction, but I don't think I succeeded in turning him into an enthusiast. (He lost his seat in the election the following Sunday.)

There were four other events of my stay in Kaliningrad. First, Marina and her husband, Mark, hosted a party for democratic political activists who are enthusiastic about land taxes. Three people were supposed to come, but one of them couldn't make it, so there were just two, Almagy Golubov and Herman Burnaev. Golubov was very philosophical, Burnaev more of an action-oriented person. Burnaev suggested that I arrange for him to come to the U.S. to learn about taxing land. I replied that there was not enough that he could learn about it by coming here. Later I suggested to Marina that if she thought it a worthwhile use of funds, she might arrange a trip to St. Petersburg for Burnaev, to see what he could learn from the people at Ekograd.

Next, I met with Victor Salmin, the head of the local land office. He explained to me that Kaliningrad Oblast (regional government) was participating in a pilot property

assessment project financed by Sweden. The people who designed this project did not think it was necessary to assess land and improvements separately, which at first seemed a serious problem. However, as I thought about it later, it seemed like less of a problem, since all the work of establishing a land cadastre would be done. There would be a computerized property information data base and some developed expertise in turning sales data into assessments. It would be a relatively small matter to modify the program to yield a separate assessment of land.

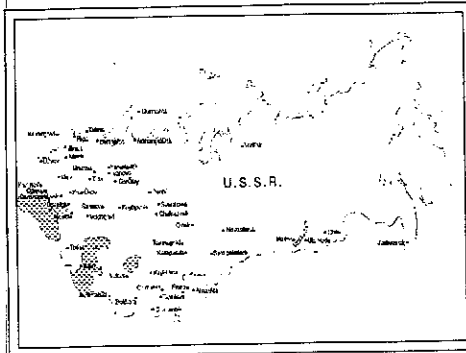
Then I was interviewed live on Radio BAS (Baltic Audio Service), Eugene Aloshin's station. It was a friendly interview, and I think it went rather well.

Finally, I met with Solomon Ginsburg, an aide to Yuri Matochkin, the head of the administration of Kaliningrad Oblast (equivalent to a state governor). In our short conversation, Ginsburg seemed thoroughly familiar with and

thoroughly supportive of taxes on land, as a result of Marina's efforts. It was not until I reached Moscow that I developed a plan for how to make use of this support.

On Thursday, December 14, I boarded an Aeroflot flight from Kaliningrad to Moscow. About 20 minutes into the flight, the cabin started filling with acrid smoke. There are no oxygen masks on domestic Aeroflot flights, so the stewardesses passed out moistened napkins for us to breathe through. There was no panic. A few minutes later the pilot walked through the cabin to assess the situation, and a few minutes after that we made a sharp U turn and descended. When we landed back in Kaliningrad, they had the fire trucks out. However, by this time the smoke in the cabin had pretty much dissipated. So back we went into the terminal and waited about two hours for another plane to be de-iced for us. We arrived in Moscow about four hours late, but Radi Kushnerovich was waiting for me at the disembarkation point.

By this time, Radi had dismissed the car and driver with whom he had come, so he needed to engage a taxi. As we left the luggage area, a taxi driver approached him, but they did not reach an agreement. Then a second driver approached Radi, and the two of them reached an agreement. However, at this point the first driver intervened and said that it was unfair for the driver to underbid him. You should understand that at all Moscow airports, there are such price-fixing arrangements. I believe that they are enforced by threats of violence. This might be regarded as an example of what the Russians call "spontaneous privatization".



# Lithuania and Russia trip

---

(continued from page 6)

In my case, the second driver was no longer interested in transporting us. Radi told me to wait while he engaged another car. Later he related the conversation to me. The drivers had said it was obvious that I, being an American, could afford what they were asking for the five-mile ride to the Bocharov residence. Radi replied that he was paying, not me. (This was true.) The drivers conceded that in that case a lower price might be appropriate. They located a driver who lived not too far from our destination and came up with a price that was acceptable to all. Such is the development of capitalism in Russia.

A lot of my time in Moscow was spent waiting for things that did not happen. Part of the reason for this was that while I was there, half a million Muscovites (out of 8 million) were down with the flu, and this number seemed to include about half the people that I had wanted to see. My proposed lectures at the Moscow University for the Humanities were canceled for this reason, as was my proposed lunch with Chrysta Freeland, head of the Moscow Bureau of the Financial Times. And the trip to Kazan that Radi thought he might be able to arrange did not happen either.

Radi told me more about his plans for a series of documentaries on the tax systems of different countries. The owner of a Swiss video studio has offered Radi free use of his facilities for editing a Swiss documentary. So Radi plans to start his series with a documentary on Switzerland. But first he needs to find more financing. He said he would use the profit from ventures that are now planned if nothing else emerged, but he could start sooner if I could find additional funds for him. I agreed to try to find more money for him.

Radi plans to use teen-agers as the narrators in all his documentaries, believing that a more interesting story can be told through their mouths. When he finishes in Switzerland he is likely to go to Taiwan, where someone has offered to finance a one-month stay for him.

Andrei Pavlov told me about the activities of the Henry George Asso-

ciation of Moscow. They are continuing their program of publicity for land taxation and contacts with politicians. They have identified about eight political parties that say they endorse land taxes. (None of these parties met the threshold of 5% of votes cast, which is necessary to be represented in the part of the Duma that is selected by proportional representation.) Andrei said that he hopes to put together a conference in March at which representatives of interested political parties and political activists from all around Russia could discuss land taxes.

On Monday the 18th, Tatiana Roskoshnaia from Ecograd was in Moscow on other business, so I met with her that evening. She told me that Ecograd continues to have many cities as clients, some of whom hire Ecograd to help them assess land. But this will have little impact until cities have the right to levy their own taxes to support the activities that they choose. A bill to give localities such fiscal autonomy is working its way through the Duma, but very slowly.

Finally, I met with Victor Shcheglov, who works for the Land Institute of the Land and Ecology Committee of the Administration of Moscow Oblast, a doughnut-shaped entity around Moscow. He has a long-

standing interest in land taxes and hoped that I might help develop protocols for taxing land. As in Kaliningrad Oblast, there is a pilot program in one Raion (county), financed this time by the World Bank, to assess property for tax purposes, making no distinction between buildings and land. Victor, Yuri Bocharov and I worked together on drafting a letter that his boss might send me, requesting my help in adding a separate land assessment to their computerized system.

It was while working on this that I developed the idea of getting similar letters from Kaliningrad and possibly other areas with which my contacts have special connections. As it happens, there is a student finishing his doctoral dissertation under my supervision, Florenz Plassmann, who has a strong interest in land taxation and excellent knowledge of computers and statistical estimation techniques. If I had one or more such letters, I would seek foundation support for him to spend a year in Russia helping interested local governments add land assessments to their computer-based property assessment systems. So that is the direction that my efforts to get land taxes in Russia will now take.

On Saturday, December 23, I flew back from Moscow to New York.