

# LAND

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# SELF-FINANCING THE CITIES OF RUSSIA

LAWs on private property rights are being drafted by federal officials in Moscow, who assume that a constitutional referendum will endorse the privatisation of land. This concept of private ownership of land is a major problem for Russia, which politicians in the Supreme Soviet do not fully understand. Even so, there is hope.

The proposals for new federal laws are being driven by the policies of St. Petersburg and Moscow, which have decided to lease land to users. The draft law will recognise the right of cities to lease land. But it is vital for the healthy evolution of the democratic process that Deputies in the Supreme Soviet engage in a calm debate about property rights. The Democratic Choice group of Deputies believe that privatisation of land is necessary to protect the citizen from state bureaucracy. Their sentiment is correct; the citizen must be free from arbitrary interference from agents of the state. But substituting the tyranny of a small class of people for the tyranny of the state is no answer.

Russia needs to develop the concept of "deed of private possession". But no privatisation formula would be safeguarded if Russia fails to develop democratic institutions and laws. Meanwhile, it is vital she does not rush to privatise her valuable assets. The problem is that the nature of land-rent is not yet understood in Russia. Land-rent should belong to the community, as the main source of finance for social expenditures. But rent has started to flow into private pockets. Land-rent could fund most government spending. The rent-for-public-revenue formula would mean that government investment would be a self-financing process, which would make it possible to reduce or abolish taxation on labour and capital.

Unfortunately, leases for land are being sold for 49-years, in return for rents which are fixed at low rates, and are not subject to revision. Privatisation needs to be carefully re-examined, to take account of issues such as these:

◆ Land leases should protect the community's right to receive the full market rent, with regular rent reviews.

◆ Buildings should not be privatised, yet, because it is not possible to determine a fair price. Lease the buildings, and give the leaseholder the right to buy in, say, five years from now, at a fair market-price.

◆ Enterprises which decide to privatise themselves ought not to buy land, for this means tying up scarce money that ought to be invested in product R&D.

Russia will have to use correct methods for calculating the wages of labour, the profits of capital and the rent of land. But western "experts" who advise President Yeltsin do not understand how the market economy really works (they do not understand how 30 million people came to be unemployed in the rich nations today). Russia will have to find her own solution. The starting point has to be education about the principles of income distribution.