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The Taxable Surplus in Russian Land

Mason Gaffney

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1. Common Property in Land Is Compatible with the Market Economy

You can enjoy the benefits of a market economy without sacrificing your common rights to the land of Russia. There is no need to make a hard choice between the two. One of the great fallacies that Western economists and bankers are foisting on you is that you have to give up one to enjoy the other. These counselors work through lending and granting agencies that seduce you with loans and grants to learn and accept their ideology, which they variously call neoclassical economics or "monetarism" or "liberalization." It is glitter to distract you and pave the way for aliens to acquire and control your resources.

To keep land common while shifting to a market economy, you simply use the tax system. Taxation is the form that common property takes in a monetary, market-oriented economy. To tax is to socialize. It's then just a simple question of *what* you will socialize through taxation, and how; but in the answers lie success or failure.

Not only *can* you have both common land and free markets, you can't have one without the other. They go together, like love and marriage. You need market prices to help identify land's taxable surplus, which is the net product of land after deducting the human costs of using it. At the same time, you must support government from land revenues to have a truly free market, because otherwise you will raise taxes from production, trade, and capital formation, interfering with free markets. If you learn this second point, and act on it, you will have a much freer market than any of the OECD nations that now presume to instruct you, and that are campaigning vigorously to make all nations in the world "harmonize" their taxes to conform with their own abysmal systems.

The very people who gave us the term *laissez-faire*—the slogan at the core of a free market economy—made communizing land rents a central part of their program. These were the French

economistes of the 18th century, sometimes called "Physiocrats," who were the tutors of Adam Smith, and who inspired land reforms throughout Europe. The best-known of them were François Quesnay and A.R. Jacques Turgot, who championed land taxation. They accurately called it the "co-proprietorship of land by the state."

Since their time we have learned to measure land values, and we have broadened the meaning of "land" to comprise all natural resources. Agrarians will be relieved, and may be surprised, that farmland ranks well down the list in terms of total market value. Thus, a land tax is not primarily a tax on farms; only the very best soils in the best locations yield much taxable surplus.

The most valuable land by far is city land—Ted Gwartney, a professional land valuer, is speaking to us about that. I have data showing that well over half the value of city real estate is the pure land value. In big, key cities, prices per unit of land go astonishingly high, dwarfing most other values by comparison. For example, at the height of the Japanese boom, in 1990, land prices in that great city rose so high that the appraised value of the land under the Imperial Palace in Tokyo was as great as all the land in California! At the same time, within California, most of the land value was in our cities, even though California is the premier farm state in the United States. Urban land of such immense value makes a rich, rich tax base for you, or any nation.

Another natural resource (hence part of "land"), whose nature and value the mass of people are only slowly realizing, is the radio spectrum. In this age of communication its value is vaulting skywards even faster than the rockets launching the satellites that direct and relay signals through the spectrum—each satellite requires a spectrum assignment, or it is nothing but space junk. One minor American entrepreneur, Craig McCaw, collected a bundle of spectrum rights for cell phones, and a few years ago sold them to AT&T for $12 billion. Then Mr. McCaw went partners with Bill Gates, perhaps the richest American, in a firm called Teledesic, to launch hundreds of satellites and amass radio spectrum rights around the entire world, including your part of the world, in the hope of dominating worldwide communications. Radio spectrum is a natural resource, and it belongs to the government, even in the capitalistic United States. When Teledesic comes calling, under the auspices of our Vice President Al Gore, don't sell anything cheap! In fact, don't sell anything at all, but lease it for a limited time, so you may gain from future rises in value. And don't stint on the professional help you should hire to protect your interests: these lease contracts are complex, and are worth billions if you play your cards right.

Hydrocarbons are a third set of valuable resources. The values involved are gigantic. The recent merger of the Exxon and Mobil oil firms was valued at $260 billion, several times greater than the Russian annual budget. Why should private parties make off with all this natural value? Several nations, including some of your neighbors, support themselves entirely from these revenues. Norway pays for a lush welfare state from its oil revenues. Its reserves are so valuable that the mere *change* in their appraised value in several recent years has exceeded the entire GDP of Norway. And your oil reserves? If they match your production, they may be the largest in the world.

World oil prices are down this year, as you know, but there is another side to this. The devaluation of the ruble has raised the value of your oil in Russian terms, because the oil earns "hard" currency abroad. Your government has recognized this by imposing a special tax on the

resulting "windfall," but we will see below (sections 2C and 2D) that there is a much more effective way to tax resource rents.

The American state of Alaska holds down its other taxes by socializing part of its oil revenues, which otherwise would inure to a handful of the major stockholders of two corporations (ARCO and BP). Alaska not only holds down other taxes, it pays each resident—man, woman, and child—a social dividend of over $1,000 per year. Go thou and do likewise. Your expert, Dmitri Lvov from the Russian Academy of Sciences, a speaker at this meeting, has written that you could cover most of your national budget from your enormous production of oil and gas.

Many third-world nations like Venezuela or Nigeria have fabulous mineral oil that they fail to exploit for their own people, letting sophisticated or ruthless foreign corporations, in tandem with weak or corrupt insiders, reap the gains. The question for Russia is whether to follow their bad example and become a poor resource-colony of the West or whether to assert your own sovereignty over your own resources for the benefit of your own people. You need look no further than Norway for a model.

Other subsoil resources have great value, too. Many nations, even backward ones, gain large parts of their national revenue from "hardrock" minerals. Bolivia, Gabon, Jamaica, Liberia, New Caledonia, Papua New Guinea, Zaire, and Zambia have raised over 25% of their budgets this way in recent years; Chile, Thailand, and Malaysia have taken lesser, but substantial, amounts. Saskatchewan, a Canadian province, raises large revenues from potash and uranium; Minnesota, an American state, from iron ore; and so on. Some other nations fail to raise much revenue from fabulous minerals from which others profit, like South Africa with its gold and diamonds, West Virginia with its coal, or Missouri with its lead mines and reserves. Russia is a treasure house of untapped mineral wealth that you can and should tax to alleviate the condition of the Russian people.

In arid lands, water is life, and the most valuable natural resource is water. For example, in Southern California we need water so much we import it from the Feather River, six hundred miles north of us, pump it uphill through the long San Joaquin Valley, then over the high Tehachapi Mountain range, and tunnel it through the San Bernardino Mountain range, all at great cost. When it gets here, it supplements and competes with local water that nature provides freely in the Santa Ana, San Jacinto, and other rivers. That local water then has a value equal to the high cost of importing the remote northern water. That value in the local waters is a taxable surplus. However, we have not learned to take that surplus value into the local treasuries; we give the water away, and worse, we actually subsidize people to withdraw water by helping them pay for dams, canals, and pipelines so they can waste water without paying for it. Thus we turn a public asset into a public liability—an extreme form of folly that is called "dissipating rent." In this age of growing water scarcities it is past time we learned to husband and nurture rent, in order to socialize it by taxing the surplus. So should you, in comparable circumstances.

Another value from water is to generate power. Again, California witlessly fails to socialize this value, but Canada, our northern neighbor, has shown the way. British Columbia, Newfoundland (the Labrador part), Quebec, and other provinces raise large revenues from

charges on the use of falling water. Russia, with some of the world's largest hydroelectric projects, can do the same, or better.

Fisheries are another source of value. In the past most nations have let this rent be "dissipated" by overfishing. In recent years the United States and Canada have in effect "privatized" fishing in their offshore waters by limiting the number of licenses and boats. This limitation was needed and desirable, overall. It created large rents, where previously there were little or none, by preventing overfishing and the great waste of duplicate, triplicate, and even quintuplicate fishing effort. That is a good example of husbanding and guarding rent, which is necessary before you can collect it. It was not necessary or desirable, however, to give away this net benefit to private parties.

The government did not sell these licenses, but simply gave them away to owners of existing boats, and others with political influence. Each license now sells for something like a million dollars, creating a new class of instant millionaires and "parlor fishermen." This giveaway to the few, and takeaway from the many, created an instant class society where before there were equal access and equal opportunities.

These privileges are worth so much that there are now documented cases off Alaska where the parlor fisherman takes 70% of the total catch. The captain, the crew, and the owner of the boat, who do the work and bear the dangers and discomforts and financial risks of fishing, must get by with the other 30%. Parlor fishermen are simply leeches; these rents should be socialized, relieving the workers from taxes.

2. The Net Product of Land Is the Taxable Surplus

A. To socialize the taxable surplus, land rent, effectively, you must define and identify it carefully, and structure your taxes to home in on it. Taxable surplus means a value you can collect in taxes without destroying, or even diminishing, it, or driving it away. In practice this means mostly land rent, because the supply of land is fixed—what economists call "inelastic"—however much or little you tax it.

Land rent is the same as the net revenue of land, that is, the gross revenue less the cost of mobile human inputs (including capital) needed to make land yield the revenue. Accountants generally divide these mobile human inputs into two parts: current expenses and durable capital. The durable capital has to be converted to an annual equivalent, to make capital costs commensurable with annual expenses. This is done by multiplying the value of capital on the land times the sum of an interest rate plus a depreciation rate. Summing that up in one line:

$$N = G - E - K(i+d) \qquad (1)$$

Where:

N = Net Revenue

G = Gross Revenue

E = Expenses (current)

K = Capital, at current value

i = interest rate

d = depreciation rate

It is common to simplify the expression by consolidating the first two terms into one, called "cash flow." Thus:

G-E = "cash flow" (2)

Likewise, K(i+d) is called the "user cost of capital."

K(i+d) = "user cost of capital" (3)

Net revenue is also called "rent." Thus, finally,

Rent = cash flow less user cost of capital (4)

Defining and measuring rent then resolves itself into defining and measuring each of the component terms, in some detail. That is a two-hour lecture at least, which time precludes here, and I hope to discuss it with officials in the Ministry of Natural Resources; but it gives you the basic idea of how to define and measure rent, the taxable surplus from land.

B. Taxable surplus is also what you can tax without driving land into the wrong use. It is not enough that the land supply is fixed: a tax must not force underuse or other misuse of the fixed supply.

A great advantage of taxing rent is that it does not change the ranking of land uses in the eyes of the landowner. Let me explain.

In a free market, the function of rent is to sort and arrange land uses: landowners allocate land to those uses yielding the most net product, or rent. Economists have shown (and you can easily see) that this is socially advantageous: the net product is the excess of revenue over all costs, so land yielding the highest rent is adding its utmost to the national product.

When you base your tax on the net product (or rent), the ranking of rival land uses remains the same after tax as it was before tax. That is, if use "A" yields 20% more rent than use "B," and a tax takes 50% of the rent, then use A still yields the owner 20% more after tax than use B, and

the owner still prefers use A. We will see below (Section D) that when you tax something other than rent (say the gross revenue, G), you will drive the land into less intensive uses, or out of use altogether.

A related advantage of taxing rent is that you can often levy the tax on the land's potential to yield rent, regardless of what use the owner actually chooses. This is, indeed, a standard way of taxing rent in most capitalist nations. It is possible because buyers and sellers trade land based on their careful estimates of its maximum rent-yielding capability. The tax valuer observes and records these value data, and uses them to place a value on all comparable lands. Many books and manuals and professional journals have been published on the techniques used: it is a well-established art, with its own professional associations, of which our speaker Mr. Gwartney is a leading member.

Such a tax is limited to the maximum possible rent, and so will not exceed a landowner's ability to pay—provided he uses the land in the most economical manner (which is not always the most intensive manner). It will surely not interfere with his using the land in the best way, but will discourage using it any other way.

C. To tax rent we must be sure there *is* rent to tax, and we must adopt public policies to husband and maximize it, and avoid policies that lower and dissipate it. This covers the whole area of public spending, a vast topic, so I will give just a few pointed examples.

i. Avoid "perverse subsidies." These are subsidies that encourage harmful things like polluting air and water, wasting water, cutting timber whose value is less than the cost of logging, or populating remote regions whose costs exceed the benefits derived.

Cape Breton Island, the northern tip of Nova Scotia, contains the most polluted area in Canada thanks to years of subsidies to sustain its uneconomic, obsolescent coal and steel industries that employ just a few people by fouling one of the most scenic jewels in North America. (Riverside *Press-Enterprise*, 24 January 1999, p. A-6.)

We have mentioned how we actually subsidize people to withdraw scarce water from our overdrawn rivers in the arid United States. The so-called water shortage in the lower Colorado River is entirely an artifact of such misguided policies: every major agency drawing on the Colorado is actually subsidized to do so, when they should be paying for the privilege. If they paid, they would stop wasting water, and would enrich the treasury, which could then abate taxes on work, trade, and saving.

The U.S. Forest Service has turned a great national asset, our national forestlands, into a drain on the treasury by subsidizing forest roads in subeconomic areas. It makes money selling good timber in good areas, but then spends $10 on roads into subeconomic areas to get $1 in revenues from sale of timber to private parties, destroying scenic values and watershed protection.

Perverse subsidies like those are unspeakably foolish and wasteful. They "dissipate rent" so there is none left to tax.

ii. Avoid letting lessees of public land conceal their revenues. Many minerals and hydrocarbons on public lands are leased by private firms, subject either to "royalties" or

"severance taxes" based on the value of output. Many of these private firms are "vertically integrated," meaning they own the downstream firms, often in other countries, to which they sell. They grow skilled at shifting profits away from where taxes are higher to where they are lower, by rigging the internal transfer prices. That is, they sell to themselves at artificially low prices, so your share of their revenues disappears. What they call "world market" prices are really their own internal prices, adjusted to help them steal from you. You must guard against that.

iii. Avoid letting lessees or taxpayers pad their costs to understate their net revenues. When you let lessees or taxpayers deduct their costs (as you should) from the tax base, you must audit those alleged costs to be sure they are real and legitimate. Pay these auditors well, and support them: they will save you a hundred times what you pay them.

iv. Avoid dissipating rent by allowing open access to resources like fisheries, which we have already discussed.

v. Avoid trying to distribute rents to consumers by capping prices below the market. This, of course, is the history of energy prices in Russia; it has also been used, in milder forms, in Canada and the United States. What is wrong with it? In a word, it fosters wasteful use, and aborts a lot of economical production. In addition, it leaves a lot of rent in private hands, untaxed (see D, next below).

It is easy to understand the dire need for guaranteed fuel in a northern continental winter climate. You mustn't let people freeze, and they will bless and support you for keeping them warm. As society gets better organized, though, you can gain by guaranteeing the poor a minimum cash income with which to buy fuel and other needs at market prices, rather than lavishing them with free fuel that you might be exporting to meet other urgent needs. You can provide the cash income from the rents created when fuel prices rise, and have a lot more to spare from the resulting net gains, which I next explain.

D. Raising output by removing tax bias

This section involves some analysis, some definition, some accounting, and some hard thinking: it calls for a slower reading pace than what precedes. I urge the reader to give it the close attention it needs; I promise that the effort will repay you well. This is the heart of the thesis, and makes sense of everything else.

When you base a tax on taxable surplus, and keep the tax proportional to taxable surplus, you levy taxes without twisting and inverting the landowner's or land manager's ranking of land uses. As noted before, the owner's preferred use after tax remains the same as it would be without any tax. On the other hand, if you tax on some other basis (gross revenue, for example), you bias the owner against uses more heavily taxed. To keep the example simple, and generally realistic, we assume here that the seller is a "price-taker," meaning he sells on a world market and cannot raise the price, and so has no choice but to bear the tax.

Bear in mind that net revenue is the taxable surplus: you cannot tax more than that without aborting the land use. The ratio of costs (C) to gross revenue (G) varies over a wide range, from zero up nearly to one (and even above one for subeconomic uses, which, however, you do not want). Let's compare two rival uses, A and B, for the same piece of land. Use A yields more net

revenue (N), but has a higher ratio of C/G. We levy a tax of 10% on gross revenue (G). To simplify, expenses and capital costs are consolidated as "C," so N = G-C. Table 1 shows the effects of the tax on net revenue after tax (NAT).

Table 1: Effect on Net Revenues of a 10% Tax on Gross Revenues

Land Use	G ($k)	C ($k)	N ($k)	G/N	Tax ($k)	NAT ($k)	Tax/N (%)
A	100	90	10	10	10	0	100
B	20	15	5	4	2	3	40

The higher use, A, produces more goods, makes more jobs, and yields more net product: it is clearly the higher use. The tax on G, however, turns A into a lower use than B, in the eyes of the landowner or manager. A 10% tax on G is a 100% tax on the N from use A, wiping out the entire incentive to put land to use A. It is a 40% tax on the N from use B, leaving 60% of the net product for the landowner. The landowner would choose use A in the absence of taxes, or with a tax on N; but the tax on G forces him to choose use B, which is socially inferior. This, in a nutshell, expresses the damage done by imposing taxes on bases other than N, the net revenue of land. The tax lowers output, employment, and investment opportunities for capital, all three. Fourth, it lowers tax revenues well below their maximum possible level of $10k, the net revenue from use A.

More generally, a tax on G is a tax on N at a rate equal to G/N times the tax rate on G. Algebraically:

$$NAT = N - tG = N(1 - tG/N) \qquad (1)$$

The ratio G/N is a multiplier on the impact of the tax rate, t.

For every parcel of land there are usually many alternative uses, and even more alternative intensities of any given use, a whole spectrum of choices. Up and down the spectrum, a tax on G systematically aborts the "higher" (more intensive) uses in favor of lower uses. The effect is like a "scorched-earth" policy, but not one we inflict on the invading enemy in wartime: we inflict it on ourselves in peacetime by adopting a foolish tax policy.

If we tax C instead of G, we can illustrate the effects by another table like Table 1, but this is now a simple exercise that I leave to the reader. Here the bias is in the same direction but a good deal worse, because the tax on N will be the tax on C multiplied times C/N. To visualize this effect most simply, premise a third land use, D, that yields some G without using any C at all—a parking lot is a near example. Use D would now be tax free, while uses A and B would still pay a good deal, and be displaced by use D. Parking would be ample, but there would be nothing there to park for.

There are many more possible tax types we might consider, taxes imposed on parts of C, but not all. A payroll tax is an example. This tax would discourage the use of labor on land, but not the use of capital, and so would have two biases: less labor use, with the same capital use, or even more capital use as capital substitutes for labor. We do not here pursue all such possibilities of bad tax policy, for they are too numerous. The major point is that taxes on any base other than N, the net product of land, bias the market against the best and fullest use of land.

Note, finally, that a cap on the price of G, such as discussed above, has the same effects as a tax based on G.

E. Maximizing public revenue

When you focus taxes on the net product, N, you can raise the tax rate very high with no ill effects on land use. By contrast, you cannot raise taxes on G very high because a high rate will drive some land completely out of use, and all land out of its best use, a catastrophic outcome. To avoid the catastrophe you must lower the tax rate, but that means you cannot collect in taxes all of the rent from land uses like B, or much of any from uses like D. Thus, with taxes on G, you first abort some of the taxable surplus, and still fail to collect all that remains. In Table 1, the tax collected is only $2k, or 40% of the taxable surplus (N) from use B; while the potentially taxable surplus is $10k, from use A. With taxes on N, you can collect the entire taxable surplus from use A, $10k, while aborting none of it.

Critics of the land tax policy would have us believe that the land tax base is "too small," and cannot support the government. How wrong and misleading they are! The truth is the opposite. Table 1, and the reasoning behind it, tell us we can collect more by taxing land, and exempting G and C, than in any other way.

F. Sustaining the tax base

The taxable surplus available from taxing the net product of land goes on forever, and grows as land rents grow. It is not like the false "revenue" that comes from privatizing land, which the IMF, et al., would have you do. Selling the title to land gives money to the government currently in power, which this government is prone to treat as current income and spend right away: but it is not permanent income, any more than you would call it income when you sell your farm or home. To have income, permanent income, you must reserve the right to tax land forever, and use that income for public purposes or social dividends.

If you think you need cash immediately, in excess of current taxable surplus, you can always borrow on the security of the tax revenue you have reserved for your government. There are certain dangers in mortgaging your public revenues like that, and I would counsel prudence and caution; but these dangers are small and uncertain compared with the certain disaster that will follow if you sell land forever, without reserving any power to tax it in the future.

The United States fell into this trap in the 19th century. Our federal government supported itself for years by selling off its vast public domain, a domain so vast that generations of politicians came and went who thought of these sales revenues as a kind of income. After a

while, though, the land was all gone. Then we had to turn to excise taxes, and income taxes, which have now grown so high they will slowly strangle us. Those of us who foresee this danger now look to you, Russia, with your vast undeveloped resources in public ownership, to avoid our errors and become, as we once fancied ourselves, the "last best hope of earth." We look to you to convert your nation from its status as a wretched colony from which people would escape, to a refuge of new opportunity for your own people, and for the "huddled masses, yearning to breathe free" of the whole world.

3. Untaxing Labor

The IMF and its allies advise you to impose heavy taxes on the payrolls of labor, and on employers who hire labor, and on the goods labor must buy to survive and support families. Then they turn around and tell you that labor-intensive operations, like some of your coal mines, are inefficient because labor is so costly, even though the workers are getting very little after taxes. They advise you to downsize or close these operations, throwing labor out of work. They even lend you money for the purpose: not to develop and build up Russia, but to dismantle its industry, which they call "restructuring," and throw its workers onto welfare. In a few specific cases they may be right, but in general, this is a strange way to develop Russia's economy and living standards! It is enough to make one wonder whose welfare they have in mind. To restructure your industry, first uplift incentives to build and man new plants; then let managers close old ones by their own free individual choice, as their workers leave for better jobs.

We see from Table 1, and the analysis following it, that a tax on labor artificially discourages labor-using land uses like A in favor of labor-sparing uses like B, or even D, which uses no labor at all. If, on the other hand, you untax labor, you lower its cost to employers. When you change the tax system to relieve labor, many lands will be shifted to the more intensive uses, soaking up your surplus labor and "restructuring" your industries in the most constructive, efficient ways. Employers will want to upsize, not downsize. Workers will move off welfare and produce more goods either for export or for your own consumers, lowering your need to import. Both of those will strengthen the ruble: production is the key, in either case.

You will also collect more taxes, as shown, by shifting the tax base to the net product of land. Lower welfare costs, coupled with higher tax collections, will balance your budget and lead to the day when you can even run a surplus. With these new surplus funds you can pay off old debts, if you choose to. I take no position and offer no advice on whether you should pay off old debts from the Soviet era: that is a judgment call for you to make, based on your evaluation of the history of those debts, and how obligated you feel. I do know, though, that if you have good public revenues for the future, you will have good credit, regardless of the past. Lenders will seek you out, eager to become your creditors again. That is the clear lesson of U.S. history. We have had two centuries of experience in which many of our states and cities repudiated debts, many of them owed to foreigners, only to borrow from them again within a few years.

4. Untaxing Capital

The IMF, World Bank, and various U.S. advisors tell you and the world that you must make a hard choice: you must cut spending on social welfare, even on needed pensions and back wages, in order to attract and retain capital. The supposed hard choice is false, and the advice is bad.

When you tax net land revenue, as advised here, you are not taxing at all the investor who uses his capital to improve land, or equip it with machinery and stock it with goods. The landowner or manager gets to deduct the user cost of capital from the tax base (as shown in Section 2). The improver gets to keep, free of tax, the entire *increment* in production that his capital generates. Taxes are limited to the net product of land, which you may even evaluate and tax prior to the owner's using the land at all. In the acronyms of finance, the investor who applies real capital to Russian land will get to keep the entire "marginal return" (MR) from the capital. This MR after tax (MRAT) will become the same as the MR before tax (MRBT). Few other nations can offer such an attraction.

This change will reverse the capital flight you now suffer from, and help recall over $100 billion of expatriate capital now stashed abroad. More, it will attract foreign capital, whose supply is highly elastic, into private ventures. Russia will become like a "tax haven" for mobile capital (and all capital is mobile within a few years). This will not be done clandestinely in the sometimes sinister manner we associate with Cyprus, Switzerland, or Bermuda, but quite openly and honestly. Russia will not, like the present tax havens of the world, serve merely as a broker or transit station for capital headed elsewhere; Russia will be the final destination, to your great advantage.

Foreign capital will not come here primarily to buy Russian land and collect Russian rents, for you will be taxing that land heavily. It will come primarily to improve, stock, and equip Russian land with new capital that you will NOT be taxing.

Will the IMF object and make trouble for you? They should be happy to see their loans used to create capital in Russia, and restructure your industries to earn income to repay the loans. That is what they *say* they want, at any rate, and this will be a good way to test their sincerity. If they do make trouble, you need not care, for you will no longer need them: world capital will be beating a path to your door.

The OECD will surely object, for they are waging a campaign to force all nations to adopt the same kind of oppressive, biased, counterproductive tax systems they use themselves. So far, however, they cannot even compel several small island nations to bend to them, so I think giant Russia, with its proud sovereign traditions, can resist. If you do exempt capital from taxation, as recommended here, and begin to suck in significant amounts of capital from the whole world's pool, your competition will alarm and embarrass many OECD and other nations, who may be forced to follow suit. That, however, is a problem, if it is one, for a somewhat speculative future. Your immediate problem and crisis calls for recalling $100 billions of your own expatriate capital, and few could object to, or feel threatened by that.

5. Ample Public Revenues: A Master Solution to Many Problems

Many of your most vexing problems derive simply from governmental poverty, and will melt away when you shall have solved the basic problem of raising revenues. People speak of them as

separate problems, but they are byproducts of not collecting enough taxes. At the risk of reciting what may be obvious to some, I will list some of these soluble problems.

A. Public revenues will support the ruble. They will improve your public credit, as shown. They will obviate inflationary finance, which is a recourse only for governments lacking tax revenues. Taxes will, when collected from the net product of land in the manner shown above, spur land managers and owners to produce more goods: some for export, and some to replace imports.

The basic backing of most currencies in the world is their status as "legal tender" for paying taxes. Private people and businesses must acquire rubles to pay their taxes, thus giving the ruble value. If you believe that the ruble requires the backing of national bonds, your strong revenue stream will back such bonds and let you issue them in whatever volume you may think is required.

Last, when you induce foreign investors to want to transfer funds to Russia, they will have to buy rubles for that purpose, supporting your currency.

B. Your public credit will, of course, recover to AAA rating when lenders see that there is a strong flow of revenue to pay public debts. Cash flow is what lenders rely on, basically: other things are incidental trappings. Never again need you pay premium usurious interest rates.

C. Never again need you bend to any "advice" or commands from alien lenders, nor endure patronizing, humiliating homilies from alien bankers, nor beg any foreign power for aid. Never again need you accept loans earmarked for dismantling or "restructuring" your own industries for the benefit of foreign industries or nations. The simple key to a strong, proud nation is the national revenue.

D. If you again feel the need (as I hope you will not) to rebuild your military, you will of course require strong revenues. Some American policymakers apparently believe America's security depends on keeping Russia weak, dependent, and colonial; their bad advice may very well have that end in view. I rather see America's interest in a prosperous, friendly Russia, bound to us by mutual advantage, respect, and prosperity; a Russia whose people are too satisfied and fulfilled at home to menace either their neighbors or those who live on the other side of the world, ten or twelve time zones away. Then you can use those ample revenues to raise your own living standards, which for too long have lagged behind other industrial nations; and to develop and disseminate your wonderful cultural treasures for the benefit of the world.

I hope Russia will not merely match the West in the wisdom and efficiency of its revenue system, but surpass us and set an example, along the lines sketched out earlier, for the West to emulate. There is scope for great improvement in Western revenue systems, some of which have degenerated, and now approach becoming forms of state slavery. The "leapfrog theory" of history, based on observation, has it that relatively backward nations, when they stir themselves

into forward motion, do not just "catch up" with the leaders, but leap ahead of them and become the new leaders. This is the destiny I see for Russia.

E. Strong national revenues are required to unite Russia and keep it one nation. Every nation's central government must first have its own direct revenues; it cannot survive independently on contributions from regional governments. Revenues are a direct link between the nation and each individual taxpayer.

Naturally, this relationship must not be one-sided and exploitive, or it will stir up anger, hatred, and discontent. The central government must provide those selected public services that it can perform better than local governments—services like national defense and regulating interregional transportation, for example. Central government should not preempt services that are better performed on a smaller scale, and closer to the people, but "devolve" each function to the smallest jurisdiction that is big enough for the job. There is a vast fund of experience, and a dynamic, evolving literature on federalism to acquaint you with the experience of the world on the particulars of devolution.

A key to national unity is the fair treatment of intergovernmental relations and subventions, as between rich and poor regions, and cities and subregions within regions. By "rich" I mean rich not in total, but per capita. It makes sense to adjust tax rates so they are higher in the regions with higher resource values per capita, and then distribute a national dividend on a simple per capita basis, in the manner that Alaska has made famous on the state level. The dividend should be "portable," so it does not bind the recipient, like a serf, to a particular place, nor induce people to move to the wrong places.

It is not wise to distribute central revenues to local units of government as such, for at least two reasons. One is that some local units, in bleak, poor, and remote regions, or mined-out regions, might better be allowed to expire peacefully as their residents leave with their portable dividends. Many nations have wasted great wealth subsidizing people to remain in obsolete locations and industries that they would better abandon, both for their own and the nation's welfare.

The other reason is that some poor regions, like the American state of New Mexico or Canada's Prince Edward Island, are ruled by small oligarchies of wealthy people who create their own region's poverty by the extreme inequality of resource ownership. It is folly to "tax poor people in rich regions to subsidize a few rich people in poor regions," as often occurs.

In summary, I have shown how a free market economy is compatible with common property in land, through taxation; that the main taxable surplus is the net product of land; that an effort to tax other bases stifles much production while failing to collect the full surplus; that untaxing labor is the key to making good jobs for all Russians; that untaxing capital will reverse capital flight; and that an ample public revenue is the master key to solving a host of problems that now seem so menacing and intractable.