Mission to Moscow

by Edward J. Dodson, Cherry Hill, N.J.

Late in April, I received a letter from V.P. Zvolinsky, an influential Deputy of the Russian parliament inviting me to come to Moscow in May. I was to be included in a group of Western advisers making presentations to the Russians at a conference on whether the land of Russia ought to be sold off Western style or — as our group would recommend — awarded under leases to the highest bidders, with the lease fees adjusted annually based on changing market values. We were about

Please see page 9

Mission to Moscow

Continued from page 1

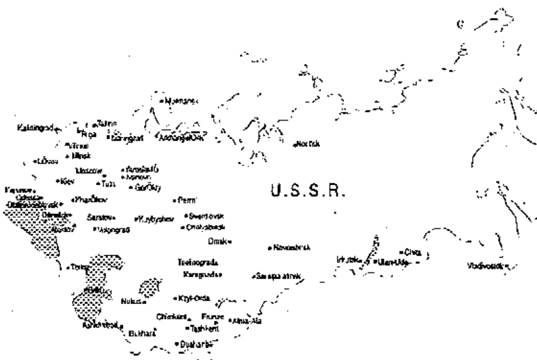
to enter a debate that raged in the time of the czars but had been taken off the political agenda when Lenin and the Bolsheviks ascended to power.

I was reminded by my activist friends and colleagues that Leo Tolstoy, strongly influenced by the writings of Henry George, had used what limited influence he had to warn Nicholas II that without resolving the land question Russia was headed for revolution. Now some ninety years later, many of the same issues were facing a society also struggling with the creation of democratic institutions and processes, as well as the privatization of its industrial foundation. Already, at the urging of World Bank and International Monetary Fund advisers, Russia's land was being sold off to private developers. World Bank loans financed two large housing developments in St. Petersburg and Novgorod with the promise of more to come. Officials in Yeltsin's government announced their hope that these land sales would be extended to other Russian cities.

The Parliament, which is dominated by Communists, opposed the sell-off and passed legislation in April to override the Yeltsin decrees and halt such sales. They were joined by the much smaller Agrarian Party, whose members control the agricultural affairs committee.

Virtually every economist and other adviser from the West (and, in particular, from the World Bank and International Monetary Fund) has been pressing Russia to privatize land ownership, arguing this is key to conversion to a market economy. Several of the people in our group had dedicated the better part of the last six or seven years pressing any Russian who would listen to adopt the leasehold structure instead. I was now joining in that effort, my participation orchestrated from London by Fred Harrison, head of a government watchdog organization called the Land Policy Council.

Harrison's work in Russia goes back to Mikhael Gorbachev and perestroika. Then, in 1990 he and a number of U.S.



economists (all strong advocates of market economies) met in New York City with their counterparts from Russia and other former Soviet-bloc nations to talk about the land question. These economists took the incredible step of crafting a letter sent to Gorbachev in November of 1990 with a warning:

"It is important that the rent of land be retained as a source of government revenue. While the governments of developed nations with market economies collect some of the rent of land in taxes, they do not collect nearly as much as they could and they therefore make unnecessary great use of taxes that impede their economies— taxes on such things as incomes, sales and the value of capital."

The letter was written by economist Nicolaus Tideman of Virginia Polytechnic Institute. Nearly thirty other economists, including several Nobel prize winners, signed the letter. Gorbachev did not respond; understandably, his thoughts were on more pressing matters.

Still the New York conference had resulted in a number of partnerships with various Russian organizations working on privatization issues. A working relationship with the Eco-Grad Research Centre in St. Petersburg, whose principals were eager to sidestep Moscow and work directly on land lease schemes with Russian cities. By the end of 1992, Eco-Grad was working closely with officials of St. Petersburg, where Mayor Valeriy Nekrasov gave his full support to the leasing idea. A conference sponsored by Eco-Grad in January 1993, sparked additional interest from other officials, delegates to a national organization called the Union of Russian Cities.

The proposal for a Parliamentary conference on the land question came from Deputy Zvolinsky to Fred Harrison in February. The irony was, of course, that Zvolinsky was not only Chairman of the Natural Resources Committee but was a member of the central committee of the Communist Party. Not long thereafter, I received a call from Nic Tideman. Would I be willing to join the team going to Moscow to present our views to the Russian parliament?

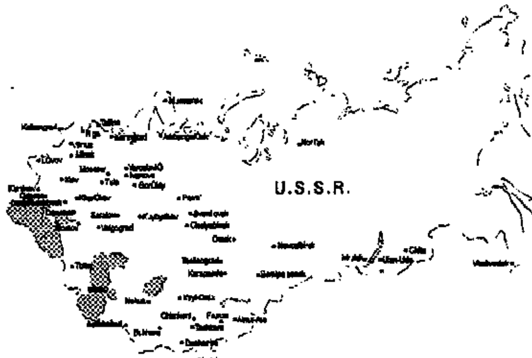
My first question was, "Why me?" I am not an economist; my experience is in the housing finance industry. What I could explain to the Russians, as it turned out, was how banks have repeatedly exposed themselves to collapses in the speculative land markets in the West. Bank credit is the fuel that drives speculative land markets. Eventually and inevitably, land prices are driven up so high that no one can profitably develop land. Developers of partially built office buildings and shopping centers suddenly find their revenue projections no longer work. They have to drop their prices to compete for reluctant tenants. They fall behind on their loan payments; the banks stop advancing construction funds, foreclose and try to dispose of the real estate to recoup some of what they loaned. Those banks that have over-lent in now collapsing markets slide into insolvency and are taken over by the government — at enormous cost to the taxpayers. In the U.S. and the West, generally, this cycle is repeated about every twenty years. This was the story I told the Russians. Unless they were

Please see page 10

Mission to Moscow

continued from page 9

far more careful than we had been in the West, allowing land to be bought and sold as a commodity carried heavy risks to the Russian economy and the stability of Russian society, generally.



During March and April the details of the trip began to take shape, although the impending election and the general uncertainty of Russian politics kept the conference dates up in the air until just weeks before we actually left. Fred Harrison was working feverishly with the Russians, traveling back and forth between London and Moscow to ensure the Russians did not falter. Early in April, he met with and gained support from Nikolai Ryzhkov, who had served as prime minister under Gorbachev. Finally, the dates were set. We would meet in London on May 18 to plan our presentations, then fly to Moscow the following day.

In addition to Nic Tideman, the other American economists participating were Mason Gaffney (University of California), Kris Feder (Bard College, New York), and Michael Hudson (former balance of payments analyst for Chase Manhattan Bank and now a private consultant).

We were joined in London by Kenneth Jupp (a former English High Court Judge and expert on property law), Ronald Banks (a property assessor and developer), and Duncan Pickard (a University of Leeds lecturer on agriculture and owner of a farm in Scotland). The final member of the team, former U.S. Attorney General Ramsey Clark, met us in Moscow.

Getting into and out of Russia these days is, I am sure, much easier than in the past. That said, one must be prepared for a far more spartan experience than we are accustomed to traveling the U.S. or most Western destinations. However, I saw nothing in Moscow that approached the devastation that exists in some of the poorest neighborhoods of Philadelphia and other U.S. cities. Nor did I see any evidence that street crime is a widespread problem. Given the times and what one reads in our newspapers, Moscow seemed incredibly quiet. Its citizens, like people everywhere, were engaged in the everyday struggle of trying to make a living.

Once in Moscow, our group assembled Sunday evening for a welcoming dinner with Deputy Zvolinsky at our hotel, a very large, still government-run monument to the 1960s near the Kremlin. On Monday, Fred Harrison came to us with disturbing news; we would have only around four and a half hours for our entire presentations. This included the time required for interpreters to translate our English presentations into Russian. So, we began to cut back to the most essential points until all of our presentations blended together as if we were making one continuous speech. To have accomplished this task was, in my experience, rather remarkable in itself. In any event, by Monday evening we were ready for the conference, which was to begin Tuesday morning at 10:00 a.m.

As things turned out, the Russians — supporters of our proposal and opponents — took the opportunity to speak their minds, at length. Fred Harrison, who opened our portion of the conference, finally stepped to the podium at around 11:45 a.m. Several of our group actually considered walking out in frustration. But, we persevered, and the remainder of the day largely belonged to us. Were we listened to? That, of course, is the $64 million question. The Communists and others continue to oppose Yeltsin privatization initiatives. However, many are still committed to the public ownership of what they view as essential national industries. Back in the United States, I am once again a bystander. And yet, I feel privileged to have had the chance to influence history, for that I feel is what is at stake in Russia.

In our own society, the land question has been well hidden within the larger context of problems we accept as characteristic of capitalism. Interestingly, many of the economists who signed the 1990 letter to Gorbachov do not agree that the same public policies recommended for Russia are desirable or workable for the U.S. Not only do I believe they are mistaken, I am convinced that economic nirvana — full employment and no inflation — is possible, but only possible if we finally listen to the advice Henry George attempted to give us a century ago in his book, Protection or Free Trade:

"To secure to all the free use of the power to labor and the full enjoyment of its products, equal rights to land must be secured. "To secure equal rights to land there is in this stage of civilization but one way ... The only way to abolish private property in land is by way of taxation. That way is clear and straightforward. It consists simply in abolishing, one after another, all imposts that are in their nature really taxes, and resorting for public revenues to economic rent, or ground value."

Editors Note: GroundSwell hopes to publish Mr. Dodson's 8-page paper in a future issue. Edward Dodson works as a risk analyst in the housing finance industry and is on the faculty of the Henry George School of Social Science in Philadelphia.

Editor's Note: Fred Harrison is appealing for donations to carry on the Russia campaign. Checks are to be made out to Land Policy Council, attention Barbara Sobrielo; 54, Harrow View Road; London W5 1LZ, England.