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A Bad Break for Russians, Rich and Poor

By Konstantin Sonin

How have analysts reacted over the last five years to President Vladimir Putin's economic initiatives? While they agreed that he was saying all the right things in theory about protecting property rights, encouraging migration and increasing government efficiency, analysts have often argued that these initiatives look completely different in practice. And they have often been right.

However, the president's recent state of the nation address contained an economic initiative that was completely wrong. The president said that he believed it was necessary to get rid of the estate tax. He explained that "billion-dollar fortunes are all hidden away in offshore zones anyway and are not handed down here." According to this logic, we should get rid of traffic rules, since many drivers bribe the police to turn a blind eye to traffic violations. Taxes on inheritance are hard to administer and bring a relatively small amount of money to state coffers. However, Russia needs this tax, and now is the perfect time to learn how to collect it properly.

Russia's wealthy are a lot younger than wealthy people in other countries. They will likely be with us for quite some time. By the time the current oligarchs start to age and pass away, the government should figure out how to administer the estate tax. A progressive tax on inheritance could serve to redistribute wealth in a more equal way and to legitimize property rights.

Now, the way things stand, the first generation of rich Russians has little hope of ever gaining the absolute recognition of their property rights. This looks even more unlikely for state officials who have made their fortunes thanks to their government jobs. If the oligarchs' children were to hand over a portion of their inheritance in taxes, the remaining money would be seen in a far more favorable light. As this process would be extended over time -- it is impossible to imagine that all of Russia's oligarchs would die on the same day -- everyone would have time to get used to the estate tax and learn how to deal with it.

There is also an ideological advantage to taxing inheritance. The 1917 Revolution kicked off one of the most tragic periods in Russian history, but it nevertheless had its progressive side. If there was something good economically in the Soviet Union, it was the relatively high level of vertical mobility in the workforce, which was in many ways a product of the revolution.

A progressive estate tax would be a good way to encourage social mobility today. The mere presence of this tax would send a signal that Russia want to continue to be a place where individuals' destinies are not constrained by their initial material conditions.

Abolishing the estate tax would also create new problems. For example, it would open up a loophole that would allow taxpayers to fiddle with their income tax. But then again, most of the income to the federal budget currently comes from oil, natural gas and customs, which means we could easily abolish income tax as well.

Economically, Russia is a normal Third World country. However, it would be strange to assume that it will stay this way -- dependent on oil and unable to collect even the most basic of taxes -- for the next 30 or 40 years. We need to understand what we actually want to be. Do we really want to catch up with Portugal or just be a vast Venezuela?

Konstantin Sonin, a professor at the New Economic School/CEFIR, wrote this column for Vedomosti.