

Protecting Free Enterprise

Former Yukos CEO Mikhail Khodorkovsky's hunger strike several weeks ago was short enough so that he did not suffer serious health problems but long enough to draw attention to the difficulties faced by the political initiative introduced by President Dmitry Medvedev. That initiative calls for easing the repressive and illegal practices of the courts, prosecutors and investigators toward businesspeople.

This initiative is important because businesses are the only ones paying value-added taxes that fill state coffers. The work performed by ministers, bureaucrats, public prosecutors and the police does not produce any income. The federal budget receives funds from two main sources. The first is taxes — income derived from the capital and labor of the people. The second is the income derived from the sale of raw materials, which are jointly owned by those same citizens.

The activities of state employees do not add to that wealth, but redistribute it from one person to another. By contrast, the activities of the business community produce an increase in that resource — income — that can later be redistributed by the government through tax collection and government spending.

Why is Medvedev's initiative running into so much resistance? One answer is that those who are at the receiving end of that redistribution of funds — state employees — make a pile of money by manipulating the system to their own advantage.

The second but no less important answer is that individuals and businesses in the private sector are also finding ways to redistribute tax dollars to line their own pockets. Many people evade paying taxes simply to have more money, and not because they feel that tax rates are too high. And not every businessperson who violates fire safety regulations does so only because compliance is overly burdensome.

What's more, businesspeople sometimes try to seize what rightfully belongs to others — and they do so with the help of state employees, most of whom work in various law enforcement agencies. Not only does such activity produce no tax revenues for the state, it reduces the incentive of businesspeople to work hard and invest, and turns them into the victims of those who benefit from the redistribution of wealth. Thus, the struggle by prosecutors and the police against infractions by businesses is no less a struggle by businesses to defend their ownership rights.

One of the most negative consequences of the Yukos affair is that it has soured the whole country's attitude toward business in general. Then-President Vladimir Putin dismantled the Yukos empire not only for purely financial and political reasons, but also out of the legitimate desire to stop the oligarchs from redistributing the country's wealth — ignoring, of course, that what ultimately amounted to the state expropriation of the country's largest private oil company was the quintessence of redistributing wealth.

If the initiative by Medvedev leads to the end of redistribution of private property, that will be a very welcome change indeed.

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By Konstantin Sonin

Konstantin Sonin is a professor at the New Economic School in Moscow and a columnist for Vedomosti.