Twelve Public Policies for Economic Growth in Russia

Richard K. Vedder

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Preface

Richard K. Vedder was speaking to the Russian leadership in Moscow earlier this year when he presented his "Twelve Public Policies for Economic Growth in Russia." The Center for the Study of American Business is pleased to publish this important work of its adjunct scholar both because of its influence on current Russian thinking and its insight into the economic challenges that face that nation.

However, I enthusiastically recommend a reading of the "Twelve Public Policies" to American audiences because they are an eloquent summation and reminder of the fundamental underpinnings of our economic freedom and prosperity.

Murray Weidenbaum
Chairman and Director
Center for the Study
of American Business

Richard K. Vedder is adjunct fellow with the Center for the Study of American Business at Washington University in St. Louis and Distinguished Professor of Economics at Ohio University. An economic historian specializing in labor issues, his research and commentaries have been published extensively in major media. In April he traveled to Russia to be part of a small group of economists from several nations that advised senior Russian officials, including President Vladimir Putin, on economic reforms needed in that country.

Twelve Public Policies for Economic Growth in Russia[1]

Richard K. Vedder

Introduction

As something of a Russophile who devoured Russian novels and classical music in my youth, I am honored to be asked to offer my observations on the Russian economy. I would note that, one century ago, an observer of the Russian economy might have pointed out that Russia had the highest rate of growth of industrial production of any European nation. Output had increased 8 percent per year in the 1890s, more than doubling in a decade. Russia was a major recipient of foreign investment.[2] It was in the middle of what Walt W. Rostow termed Russia's "take-off" into sustained economic growth.[3]

An observer 100 years ago might well have expected that over the course of the 20th century, Russia would have converged on the more mature economies of Great Britain, the United States, and Germany, reaching approximate equality with those countries in terms of income per capita. After all, economic theory suggests that, where there is a market economy and free movement of resources, the mobility of labor and capital will work to reduce differences in income disparities between areas. Convergence has worked to give Japan approximate parity with the leading economic powers of 1900. Many poor nations or areas at that time, such as Korea, Taiwan, and Singapore, are affluent nations today.

Yet Russia has failed to converge, precisely because it abandoned the moves toward a market economy that it had begun to adopt in the late nineteenth and early twentieth centuries.[4] The last decade has seen the beginnings of a transition from an inefficient command economy toward an economy where the efficiency emanating from market signals can begin to operate. It is the completion of the preconditions necessary for convergence to take place that is essential for economic growth to begin in Russia at a high and relatively sustained level. There is nothing historically inevitable about Russian economic growth. But if twelve preconditions for development cited below are fully met, market forces almost certainly will move to raise the quality of economic life in Russia and lead to it converging on the richer nations to its west and to its east.

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There are no doubt political and other obstacles that may prevent instant achievement of the goals outlined below, and as a non-Russian I am very sensitive to the fact that only Russians can make the appropriate decisions that will determine your economic destiny. More than seven decades of Communism led to a decline in both self-reliance and the willingness to take risks in Russia. The desire to work hard, save, and invest similarly was depressed. Basic characteristics of competitive capitalism like striving to improve product quality and pleasing your consumers were not part of the on-the-job training of Russian workers. It takes time to educate workers into the methods of competitive capitalism. That is made more difficult since arguably Russia *never* has had much experience with market-driven economic change, since, despite the Stolypin reforms after 1907, at the time of the 1917 Revolution many Russians were farmers still living in somewhat primitive communal conditions that bear little resemblance to the modern market economy. In any case, many members of the older generation that reached adulthood before 1985 or 1990 no doubt are uncomfortable with the risks, uncertainties, and dynamic dimensions inevitable with market-driven economic activity.

Thus change is difficult, and visionary domestic leadership and possible heavy reliance on foreign physical and human capital investment may be necessary to help inculcate the attitudes and qualities needed for market development. Possibly the educational system can help in this regard, although that assumes the existence of instructors versed in an understanding of market processes. Nonetheless, as an economic historian, I can share with you my observation that, based on my study of western economies, 12 factors seem to be critical for sustained economic development to occur.

Twelve Policies to Promote Economic Growth in Russia

First, use the power of the state to set "rules of the game" that govern market transactions and provide a legal framework for economic activity. This point includes many dimensions. The ownership of property must be delineated, and government needs to establish a means whereby individuals can clearly demonstrate their ownership of property, be it land, housing, machinery, business enterprises, or financial investments, such as stock ownership in companies. There need to be rules setting out the freedom to enter into contracts with virtually no interference from government. The freedom to make profits without confiscation by either government or private entities needs to be established beyond a shadow of doubt, written in laws that are enforced by the state. That means a strong police and military apparatus is needed to deal with criminal elements trying to thwart the rule of law. It means also that the courts must be free to make objective decisions without political interference from the government. A strong independent judiciary is vital.

Second, in carrying out governmental policies, create a level playing field between various participants in the market economy. When government favors one provider of goods and services or another, it distorts the allocation of resources from what human action dictates based on the desires of consumers and the economic imperatives facing producers. It distorts the signals that markets send that move resources to their most productive use. Thus the provision of subsidies to some producers of a product but not to others makes no economic sense. The de facto levying of differential tax rates on different producers is highly undesirable. The application of regulations to restrict the behavior of some producers or consumers rather than others is similarly inappropriate. Not only are such policies "unfair," they also often prevent potentially successful entrepreneurs from fully exercising the talents that they have. The signals that markets send that lead to resources moving to their most efficient usage are distorted by government subsidies or unequal taxation. Similarly, unequal treatment of different economic actors reduces the likelihood of foreign investment that is critical to achieving rapid growth and economic convergence.

Third, make labor and capital markets free. Restrictions on the importation of foreign capital reduce resources for growth and raise the specter of discrimination against foreigners that increases perceived investment risks. Requiring detailed registration of individuals before or after moving from one place to another raises the costs of migration. The United States owes a good share of its success to the massive migration of people both internationally and internally. Often output can be increased simply by moving individuals from areas where the productivity of labor is relatively low to areas where, at the margin, new workers significantly increase output and incomes. Rather than subsidizing dying industrial cities of the Soviet era, perhaps out-migration from them should be encouraged, and it definitely should be permitted. To be sure, free migration assumes the availability of housing and other things that are not always immediately available in optimal quantities. Nevertheless, the principle of permitting, even encouraging, migration should be established. Housing construction will follow people if profit-maximizing entrepreneurs are allowed to operate in the housing industry.

There is often a temptation to try to emulate the European-style welfare states by imposing all sorts of rules and regulations, particularly in labor markets. Western Europe is paying a high price for regulations that impose labor market rigidities, including high rates of unemployment.[5] While Western Europe can afford the luxury of inefficient regulation, Russia cannot. In particular, it is highly desirable not to impose laws requiring the payment of minimum levels of wages in order to work, or limiting hours of work. Such laws often lead to unemployment among some of the poorest and most disadvantaged members of the population, and prevent a fuller utilization of resources. Similarly, laws making it difficult to discharge redundant or unproductive workers reduce incentives for business enterprises to hire workers in the first place. Also, such laws reduce the inflow of capital.

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Fourth, reduce government expenditures as a percent of national output and finance those expenditures through taxation rather than through borrowing, printing money, expropriating private assets, or other such means. While the optimal size of government from the standpoint of maximizing the rate of economic growth varies from economy to economy, there is considerable evidence that most of the western industrialized democracies have increased government size beyond the growth-maximizing point. In these countries, at the margin, incremental expenditures have little positive impact on output, but the incremental taxes needed to finance that spending have significant disincentive effects on human behavior. Excessive marginal tax rates on work activity lead to reduced work, while similar taxes on investments lead to lower levels of capital formation. The financing of government through debt issuance leads to inflation, loss of investor confidence, rising nominal and often real interest rates, and sometimes costly distortions in the real exchange rate. Moreover, it is a form of disguised taxation that fundamentally violates at least one and perhaps more principles of financing government.

In relatively poor nations like Russia, the optimal size of government is likely to be smaller than in nations like the United States, France, or Italy. Yet Russia in 1999 had governmental expenditures of at least 35 percent of total output, higher than the United States. In the United States, I have estimated that government size needs to be reduced by 20 percent to 25 percent or even more to maximize its economic growth, and in Western Europe the governmental downsizing from a growth-maximization perspective is even larger.[6] I have not done explicit research on what is optimal for Russia, but based on my other research I would suspect reduction in expenditures as a percentage of GDP to the 20 percent to 25 percent range would lead to noticeably higher rates of growth.

To be sure, some government spending probably has more positive or less negative effects than other forms. Spending on infrastructure, for example, may have some positive effects, although perhaps less than if such spending were undertaken by the private sector. On the other hand, from my reading of the evidence for the United States, subsidies, transfer payments, and the like are more likely to have significant negative effects.

In the United States, the state-level governments tend to finance virtually all of their current expenditures from taxation. There is an enormous body of evidence that shows that, other things the same, states with high levels of taxation tend to have low levels of economic growth. For example, from 1965 to 1993, the 25 states with the highest average tax burden (as measured as a percent of personal income) had 60 percent real personal income per capita growth, while the 25 states with the lowest average tax burden had 80 percent growth—one-third more.[7] The state of Tennessee had almost exactly the same per capita income as the neighboring state of Kentucky in 1980, but now has a significantly higher per capita income level. Why? Tennessee had a lower tax burden in 1980 than Kentucky, and lowered it still more in the ensuing years. Kentucky, by contrast, raised its overall tax burden. As a consequence, Kentucky's economic growth was noticeably smaller than its neighbor's. This story can be told many times. In 1970, high-tax Sweden was by most measures one of the three richest countries in the world. Today, its per capita income is not even in the top 20 countries, and is below the average of the original 24 OECD nations.[8] Sweden's tax burden was one of the highest among major nations in 1970, and was raised dramatically after that date, becoming the highest in the western world.[9] High taxes led to enormous disincentives to work, to save, and to invest.

Fifth, adopt a simple tax structure with a small number of broad-based taxes with low rates. There are at least four features that a "good" tax (if there is such a thing) possesses. A good tax is not costly to administer, is neutral in its economic impact, is "fair," and is transparent. Regarding the first point, in America, our income tax is extraordinarily complicated, and the cost to society, including the taxpayers who spent billions of hours complying with the law, is measured perhaps in the hundreds of billions of dollars—a significant percentage of the revenue that the tax raises. That is clearly undesirable.

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Taxes that lead to distortion in resource usage are likewise bad. My own research suggests that taxes on consumption tend to have fewer negative effects on economic growth than do taxes on income.[10] If payroll and individual income taxes for some persons at the margin reach 50 percent or more of income, they likely will have severe disincentive effects, reducing labor supply. In the United States in the early 1980s, when the top marginal tax rate on the federal income tax was reduced from 70 percent to 50 percent, the number of persons reporting earning more than one million dollars in income more than doubled within two years, despite the presence of arguably the worst recession since the Great Depression.[11] Tax reduction led to an unleashing of the entrepreneurial spirit, and for some groups an actual increase in tax revenues.

In the United States, we have nine states that have virtually no individual income tax (although individuals still must pay the tax levied by the federal government). The other 41 states have such taxes, often reaching rates of about 10 percent of income at the margin for some individuals. From 1990 to 1998, over 2,800,000 Americans moved from the 41 states with income taxation to the nine states without such levies. One of the great migrations in human history occurred silently, without press coverage, as people moved away from those governments that seized a significant proportion of the fruits of their productive activities. Several American states are learning from this lesson and are now reducing their income tax burdens.

Ireland, with a very low corporate tax burden, is booming as European capital moves to take advantage of low tax rates. Similarly, I have been told that robust growth in Estonia has been fueled in part by a dramatic lowering in top tax rates. Perhaps there are lessons here for Russia.

The tax system should not be used for social engineering in a manner that prevents resources from being allocated on the basis of consumer preferences and the considerations of the cost of production (demand and supply). I have been told, for example, that advertising expenditures are not deductible in calculating income subject to business taxation in Russia. Somehow it is assumed that advertising is wasteful, a notion that is no doubt a holdover from the Soviet Era. In fact, advertising is a legitimate business expense, and the information conveyed by advertisements actually help markets to function by leading to more informed buyers of products and services. Advertising strengthens competition. The tax system should not distort expenditures for this legitimate expense. There are, no doubt, many other examples.

Sixth, minimize non-tax restrictions on private economic behavior in the form of regulations. Regulations that restrict entrepreneurs' ability to behave as they would like sometimes serve a productive social purpose. It makes sense, for example, to prohibit a manufacturer of chemical products from discharging pollutants into a lake that provides drinking water for the local residents. At the same time, however, the western experience is that government officials tend to overregulate, as they derive power and influence from their regulatory powers. There should be a general rule that “regulation is not permissible unless there is a compelling social need for it.” Wage, price, and interest rate controls are particularly bad, as they distort the ability of the price system to serve as a signaling device that efficiently allocates resources.

In the United States, we have found that most new jobs are created by what are initially small businesses. The most dynamic and valued companies in America include many founded as small businesses in the past two or three decades, including Microsoft and all of the dot-com corporations. The proportion of the American work force employed by the 500 companies on the *Fortune* magazine list of largest corporations has declined by about one-half over the past 30 years. Thus it is critically important to minimize restrictions on starting new businesses. Business permits or registration should be simplified, perhaps initiating a “one-stop” approach whereby a would-be entrepreneur can quickly and cheaply receive the necessary permission to enter business. Conceptually, the question needs to be asked: why does a person need *any* permission to begin a business? If Russia is going to make mistakes in this area, a good case can be made that it should err in the direction of too little regulation, as regulation tends to reduce the ability for entrepreneurial talents to be manifested.

In general, the principle should be established that regulation is permissible only where there is compelling evidence that the expected present value of the future benefits of the regulation exceed the present value of the expected costs. The evaluation of costs and benefits must be done by some agency other than the one formulating or enforcing the regulation. In short, the regulators must be regulated.

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Regulation extends to the international sphere as well. Pressure will be placed on Russia to sign international agreements that regulate the environment or the workplace, for example. Often these agreements are pushed by politicians without a clear understanding of the true benefits or costs, such is the case with the Kyoto accords. While Western nations have the luxury of being able to impose costly regulation on their citizens, the burden of doing so in Russia is potentially far greater given lower initial levels of per capita income. In their earlier stages of development, nations like the United States and Great Britain largely had unregulated economies, and the entrepreneurial freedom that resulted had profoundly positive long-term economic effects. Don't give up that freedom. You need to be very realistic and scientific in assessing costs and benefits before signing international agreements or implementing domestic regulations that constrain entrepreneurial freedom to engage in economic activity.

Seventh, continue to privatize state economic activities. Privatization by itself is no panacea, and it should be done in a way that ensures competition and market activity, not monopolies and state subsidies. Nonetheless, on average, enterprises that compete in a market economy face a discipline that government-owned or controlled businesses do not, leading to higher productivity and efficiency. It would seem to me that large government monopolies like the gas and electric companies and the railroads should be candidates for privatization, and at the minimum they should be subject to competition (accomplished by dividing the existing companies by function, such as production and distribution, by geographic area, or by both). The last point is important. Much of the relative efficiency of private enterprise compared to governmental ventures comes from competition. Privatization must be undertaken in an environment of competition, with the state showing no favoritism toward any enterprise.

Eighth, strengthen the banking system and stabilize the currency. Turning first to the latter point, a large-scale monetization of governmental expenditures is extremely unproductive, lowering the confidence of foreign investors, causing capital outflows, etc. Russia learned this lesson in 1998. The long-term correlation between economic growth and both the level of inflation and its volatility appears to be negative. The stabilization of prices must be a key goal in the restoration of confidence. The fashionable Keynesian notions that inflation can reduce unemployment and stimulate the economy have been demolished by the experience of the past generation. The price system is an information device. Inflation distorts the operation of price signals and sometimes sends the wrong information to entrepreneurs. Inflation imposes a cruel and capricious tax on some members of the citizenry as well.

In some situations, the pursuit of monetary stability suggests that fundamental reform of institutional structures is necessary. This is particularly true where the political will to restrain monetary expansion is lacking. Alternative approaches include a commodity (e.g., gold) standard, a currency board, joining an economic union (such as the European Union) or dollarization (defined to mean the adoption of the currency of another nation, not necessarily the United States). Given the experience of the past decade, it may be wise to explore one of these options. I believe it is less important which approach is selected than establishing credibility in the medium of exchange both domestically and in the international community. Should the Bank of Russia or other institutions prove unwilling or unable to establish that credibility, alternative approaches to monetary stabilization need to be explored.

Russia needs good, sound, well capitalized and trusted banks. Given the limited Russian experience with for-profit private commercial banking, it makes sense to invite foreign interests to participate more freely in the banking system. While it is understandable to worry about excessive foreign control, rules limiting the foreign role to 12 percent seem to be counterproductive. Increased bank competition in the long run leads to reductions in the net interest margin of banks, meaning relatively higher rates of interest for bank depositors and lower interest rates to lenders. Other things equal, this should lead to increases in domestic saving and investment. It was the falling cost of bringing together savers and investors that contributed importantly to a roughly five-fold growth in the domestic savings rate in the American economy during the nineteenth century, for example. Replication of that experience in Russia would almost certainly pay dividends in the long run.

A critical dimension in monetizing the economy where fractional reserve banking exists is the development of trust. In some cases this can be enhanced by credible bank regulation and/or by the adaption of deposit insurance. The central bank, if it is to exist (which it might not under, say, a currency board), should have a narrow, focused role of maintaining the soundness of the currency. The inherent conflict of interest implicit in a system where the central bank regulates other banks but also has some financial interest in one or more of them is highly undesirable.

Ninth, reform laws and regulations relating to corporations along Western lines. While excessive government regulation of corporate governance is clearly undesirable, some "rules of the game" need to be established centrally. For example, it is not unreasonable to require companies that have many shareholders to follow certain uniform procedures in reporting their financial condition to their owners. Accounting standards need to be uniform and, ideally, should not deviate significantly from European and/or American practice, in order to increase foreign investor confidence. If rules on, say, the depreciation of assets or amortizing "good will" vary dramatically from Western practice, the ability to secure foreign capital may be severely impaired. Given Russia's default on some debt obligations and the subsequent flight of foreign capital, this is a matter of some importance.

While excessive government regulation of corporate governance is clearly undesirable, some "rules of the game" need to be established centrally.

In the formative years of the United States in the nineteenth century, many corporate abuses occurred that impaired somewhat the development of the economy by slowing private investor support of equity markets. Reports indicate similar problems occurring in contemporary Russia. Government should not meddle in the internal affairs of corporations or joint stock companies as a rule, but nonetheless it can play a constructive role in determining the "rules of the game" for the operation of corporate democracy. It is particularly important to protect the rights of minority stockholders or "outsiders" from abusive practices of a controlling stockholder or inside management. To cite one example of a desirable practice, compensation of management should be transparent and set by boards of directors that include stockholders outside the immediate management of the firm. Failure to comply with laws requiring these practices should be punishable by severe sanctions, including prison terms and large fines. Obviously, not only do laws have to be established, but a significant enforcement mechanism needs to be established.

Tenth, rationalize the social security system and its financing. Russia is not alone among nations facing serious problems with its pension system for older citizens. Yet Russia's system provides extremely small pensions for a large number of recipients, financed by very high payroll taxes, where the combined employer-employee tax reaches 41 percent of wages, a rate that creates profound disincentive effects and encourages inefficient non-cash economic activity.

While well-to-do western economies all have pension systems for the elderly, can Russia afford such a system at its stage of development? Might economic justice and security be better served by having a means-tested system, whereby individuals who are truly poor might receive even larger pensions than at present, but individuals who have some wealth or whose children are prosperous will not be eligible for benefits? The wealthiest nation in the world, the United States, offers benefits only at the age of 62, with full benefits coming at 65, an age that is being raised over time to 67. It feels it cannot afford to let people retire at 55 or 60. If the United States cannot afford it, how can Russia? Given the low income levels and the need to expand output, pension inducements that lead to reduced labor force participation among productive individuals in their 50s or 60s seem extremely costly. Perhaps the retirement age could be raised by an average of six months per year over the next decade or two, also equalizing the retirement age for males and females in a gradual manner (that can be achieved by raising the retirement age of females more per year than males).

As to financing, strong consideration should be given to moving to a partial or complete privatization of the system, learning from the model of Chile and other nations. It is important that individuals "own" their investments, with the value reported to them on a timely basis. Such a system would increase individual responsibility, largely end the politicization of the investment decision-making process, lead to probable higher investment returns, and possibly have other advantages. Given the inexperience of the average Russian citizen in equity markets, perhaps the appropriate initial approach would be to allow competing private investment firms to offer alternative portfolios, including different types of mutual funds. Individuals would select the firm they want, and would have the opportunity to change periodically.

Eleventh, move toward free trade. The convergence of incomes between poor and rich areas depends critically on the free mobility of goods, services, persons, capital, and ideas from one geographic area to another. While some of the barriers to mobility are natural, determined by transportation costs, and others are related to anti-investor laws, taxes, or regulations, some are simply the product of tariffs and other direct barriers to trade. Other things equal, when artificial barriers to trade are reduced, trade volume increases, and with that, economic welfare. On this point, there is nearly universal agreement among professional economists.

It is true that tariffs provide needed governmental revenues, and that they are a generally reasonable form of taxation from the standpoint of administrative costs and equity. Accordingly, for these and other reasons it may be appropriate to reduce tariff and other barriers over time, perhaps in connection with international agreements where reciprocity is shown by other nations. Tariff reduction usually serves to promote productivity advances internally, as the increased foreign competition fosters greater moves toward efficiency among domestic producers.

The move to free (or freer) trade also implies the removal of any barriers to the acquisition of foreign exchange or the free movement of capital. Capital flows must be unimpeded in either direction. Open product and resource markets promote economic growth, even if they may temporarily pose problems for protected domestic interests.

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Twelfth, rationalize your intergovernmental fiscal relations. Like the United States and Germany, Russia has a federated system of government, with 89 regional governments providing local services. Such a system, if used appropriately, can promote some efficiency and competition in government, and can provide information useful in assessing the effectiveness of governmental policies. In the United States, for example, relatively little funding goes from Washington to the state capitals to finance local and state governmental activity. States must raise their own funds, meaning local politicians are accountable to local voters for their actions. Wasteful government expenditures are somewhat reduced from what would exist if a large proportion of state revenues came from Washington. To a growing extent, states engage in tax competition, knowing that businesses and productive individuals will abandon those states that impose high taxes. Thus governments are less able to operate like monopolists charging high "prices" (taxes in this case) than where this federalist phenomenon is absent. This reduces somewhat the inherent inefficiencies of the public sector.

In Russia, the move to a federalist system is still somewhat new, and difficulties remain in relations between the central government and regional ones. The trick is to maintain central control and dominance over certain obvious national functions—the provision of defense and the implementation of monetary and foreign policy, for example—while at the same time promote experimentation and competition among the regions in providing other services, such as education and roads.

Conclusions: Converging on Convergence

Where markets are free, the rule of law is strong, the currency is sound, and taxes and regulation of private entrepreneurial activity are minimal, resources will tend to move in a manner that will enhance economic welfare. Poorer nations will converge on richer ones. Thus Japan in the twentieth century completely closed the gap separating its economic performance from that of the United States and Western Europe. The same experience has been replicated throughout much of Southeast Asia, Taiwan, Hong Kong, South Korea, Singapore, and Malaysia. China is the largest example of a nation that has moved with considerable success toward the development of vibrant market capitalism. India increasingly is freeing businesses from the shackles that have constrained the entrepreneurial spirit in that vast land. Similar developments are happening in some other places in the world as well, notably Latin

America. However, where markets are repressed, such as in North Korea, divergence replaces convergence as the economic norm.

Attitudes cannot be changed overnight, and bureaucratic, political, and institutional obstacles to needed reform are no doubt substantial in Russia. A different (e.g., more recent capitalist experience) historical background that has permitted a faster transition in, say, Hungary and Poland is not present in Russia. Yet Russia has a well-educated population and vast natural resources. It has demonstrated enormous creativity over the centuries in literature, music, science, and engineering. Those creative talents can be harnessed to promote economic change. Given the right environment, the latent entrepreneurial talents of Russian workers and capitalists will provide the resources for enhanced levels of income and output. The transition has not been easy, nor is it over. Yet with appropriate public policies to set the groundwork, the people of Russia can exercise their talents in the marketplaces of the world in a manner that will provide them with the affluence that they deserve, and restore a great nation to the greatness to which it historically has aspired.

Endnotes

1. This paper is an extension of remarks made to members of the presidential administration of Russia in Moscow, April 20, 2000.

2. On pre-revolutionary growth, see Alexander Gerschenkron, "The Rate of Industrial Growth in Russia since 1885," *Journal of Economic History* 7 (1947), pp. 144-74, especially p. 156. For an older but still useful general discussion of growth in this period, see Harry Schwartz, *Russia's Soviet Economy* (New York: Prentice-Hall, 1954), especially chapter two.

3. Walt W. Rostow, *The Stages of Economic Growth* (Cambridge, U.K.: Cambridge University Press, 1960). Rostow dated Russia's take-off to 1890-1914, about the same dates as for Canada. Interestingly, writing in the midst of the Cold War, Rostow concludes that "Russian economic development over the past century is remarkably similar to that of the United States, with a lag of about thirty-five years in the level of industrial output and a lag of about a half-century in *per capita* output in industry" (p. 93). I doubt that he would say that now.

4. The importance of market forces in economic growth was not universally appreciated by Western economists during the Soviet era. Some, like Ludwig von Mises, early recognized the impossibility of rational calculations by entrepreneurs in a socialist system. See his *Socialism: An Economic and Sociological Analysis*, trans. J. Kahane (New Haven, Conn.: Yale University Press, 1951). Others did not. For example, in the 12th edition of his famous textbook, Paul A. Samuelson (with William Nordhaus) says, "There can be no doubt that the Soviet planning system has been a powerful engine for economic growth." See Paul A. Samuelson and William Nordhaus, *Economics* (New York: McGraw-Hill, 1985), p. 775.

5. On this point, see Lowell Gallaway and Richard Vedder, "Unemployment: An International Perspective," *Journal of Labor Research*, forthcoming (Summer 2000).

6. See Richard Vedder and Lowell Gallaway, *Government Size and Economic Growth*, Study, Joint Economic Committee of Congress (Washington, D.C., December 1998).

7. See Richard Vedder, *State and Local Taxation and Economic Growth: Lessons for Federal Tax Reform*, Study, Joint Economic Committee of Congress (Washington, D.C., December 1995).

8. World Bank statistics suggest that in 1997, gross national product per capita in Sweden on a purchasing power parity basis ranked 25th in the world; it also was nearly 5 percent below the OECD average, and slightly below that for the European Union. See the United States Bureau of the Census, *Statistical Abstract of the United States: 1999* (Washington, D.C.: Government Printing Office), pp. 841-42.

9. Taxes as a percent of GDP in 1998 were 63 percent in Sweden, compared with less than 35 percent in the United States and less than 31 percent in Japan. See *ibid.*, p. 847.

10. Vedder, *State and Local Taxation and Economic Growth*, op. cit.

11. Richard Vedder and Lowell Gallaway, "Soaking the Rich Through Tax Cuts," *Wall Street Journal*, March 21, 1985.

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