Kerala is one of the poorest states in one of the poorest countries in the world. The state's gross domestic product, at $1,000 per capita, is some $200 less than the Indian average. Yet, according to Kapur, the people of Kerala enjoy advantages usually found only in the industrialized world. Life expectancy is 72 years, and infant mortality rates are low. "Perhaps most impressive," he says, is the 90 percent literacy rate, the result of a three-year literacy drive begun in 1989. More newspapers per capita are read here than anywhere else in India. Keralites are open to new ideas, Kapur says, citing bookstores he found stocked with such titles as *Text/Countertext* and *Intimations of Post-Modernity*. Ashutosh Varshney, a political scientist at Columbia University, likens Kerala's active civic life to Tocquevillean America's.

*Portraits of Lenin and Marx grace an arch in the Indian state of Kerala, which boasts a communist government.*

Some of Kerala's advantages derive from its history as a cosmopolitan trading state. Its busy port city of Cochin is called the "Venice of India." Other advantages are of more recent vintage. Stiff national tariffs on imported crops and remittances from Keralites working overseas help sustain the local economy.

Now, with India's tariffs coming down amid the gradual liberalization of the national economy, Kerala "runs the risk of being steamrollered" by change, Kapur says. But its example, in his view, should remind Indians that success cannot be measured "merely in terms of income and output."

## *Love and Taxes in Russia*

"Russia's Taxing Problem" by Daniel Treisman, in *Foreign Policy* (Fall 1998), Carnegie Endowment for International Peace, 1779 Massachusetts Ave. N.W., Washington, D.C. 20036.

"Russia's inability to collect taxes is rapidly becoming the greatest threat to its economic and political stability," writes Treisman, a political scientist at the University of California, Los Angeles. The desperate Russian State Tax Service has even aired a TV ad showing a businessman whose libido has deserted him because of anxiety about his firm's tax evasion—"probably the first time in history that an honestly completed tax form has been touted as an aphrodisiac."

Needless to say, the ad did not work.

Federal tax revenues fell from 18 percent of gross domestic product in 1992 to 10 percent in 1997. The Asian financial crisis and plummeting world oil prices compounded the government's financial woes. As a result, public agencies can't pay their bills. Teachers and laborers wait months or even years for their wages. In July, coal miners in Kemerovo protested by blocking the Trans-Siberian Railway for 16 days.

Tax rates were slashed during the "shock therapy" that began in 1992, but while revenues later bounced back in Poland and other ex-communist shock therapy patients, they didn't in Russia. Russia's problem, Treisman believes, stems from the "perverse incentives" in its evolving federal tax system, which have governments at different levels competing with one another "to conceal and divert revenues that they would otherwise have to share."

Moscow typically is supposed to get 75 percent of the revenues from the national 20 percent value-added tax (VAT), and 35 percent of the revenues from the tax on corporate profits. The regional governments get the rest. In many regions, a few large enterprises predominate, and governors can look the other way when profits are kept off the books—in return for a "contribution" to off-budget funds for local development or to the governor's personal retirement fund.

Most—about 70 percent—of the decline in federal tax revenues between 1994 and '96 resulted from falling profit-tax receipts. Moscow's VAT receipts, by contrast, were relatively stable, reflecting the fact that the VAT is much harder for firms to evade.

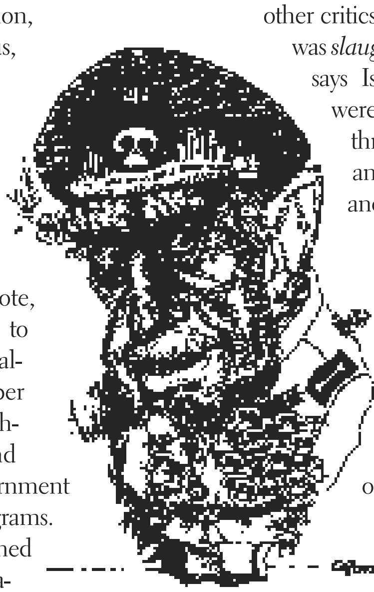
To get more rubles flowing into federal coffers, Treisman suggests assigning *all* of the easier-to-collect VAT revenues to the federal government, and leaving all of the profit-tax money to the regional governments.

Similar proposals, he notes, have been thwarted because they would have left most regions with less revenue. His solution: give the regional governments enough taxes to make up for their expected losses. In that way, he says, Moscow "could make the political arithmetic add up."

# *Chile's Two Tales*

"The Dictator" by Jon Lee Anderson, in *The New Yorker* (Oct. 19, 1998), 20 W. 43rd St., New York, N.Y. 10036.

Chile, that long, narrow sliver of a country between the Andes and the Pacific, should be the envy of Latin America today, to all outward appearances. "Prosperous [and] forward-looking," with a democratic government and a robust economy, notes Anderson, author of *Che Guevara: A Revolutionary Life* (1997), it boasts "the largest middle class in Latin America, estimated at 60 percent of its population." But how did Chile arrive at its good fortune? On that sensitive question, there is no national consensus, but "two competing versions" of Chile's recent history.



The story begins with the military coup 25 years ago against the government of President Salvador Allende. Elected president with only a third of the vote, Allende tried for three years to take Chile on the "road to socialism," nationalizing the copper mines and other industries, pushing through large-scale land reform, and increasing government spending on social welfare programs. He alienated not only the armed forces and other bastions of traditionalism but a large part of the populace. In September 1973, a junta headed by General Augusto Pinochet seized power, and soon reported that Allende had killed himself.

Chileans who call themselves Pinochetistas claim the coup saved Chile from becoming "another Cuba" and averted civil war. ("The active American role in aiding and abetting Allende's downfall has been airbrushed out of their version of history," notes Anderson.)

Pinochet gave free rein to Chilean disciples of American economist Milton Friedman, and they brought about the country's "vaunted economic miracle," Anderson says. Their efforts to encourage foreign investment and privatize businesses that Allende had nationalized produced "an average annual economic growth rate of seven percent for the past 14 years, a rate three times the overall Latin American average."

But what Pinochet's admirers only reluctantly acknowledge as certain "excesses" during his 17 years in power, Allende's daughter Isabel and other critics decry as mass murder. "There was *slaughter*, there was state terrorism!" says Isabel Allende. "Many people were murdered in cold blood, their throats slit, burned to death." This and the loss of democracy, she and other Chileans believe, was far too high a price for the claimed economic progress.

More than 3,000 people were killed or "disappeared" while Pinochet was in office, Anderson notes, "and tens of thousands more were imprisoned or fled into exile." The killing continued well into the late 1980s. The dictator only agreed to give up power in 1990 (having lost a referendum on his rule two years earlier) in return for amnesty.

Pinochet's detention in England last fall (after Anderson's article appeared) at the request of a Spanish magistrate pursuing the 82-year-old retired dictator for crimes against humanity caused a fresh uproar—and even more division—in Chile. Some of his enemies rejoiced, but others of them wanted him freed and brought to justice in his own country. Pinochet's admirers, of course, wanted him simply freed. For Chileans, it seems, the past is not quite past.