

**THE IMPLOSION of power in Russia is a testament to the critical flaw in Western economic philosophy.**

The widespread goodwill felt by people in the West towards the citizens of Russia was overshadowed by the unseemly haste with which governments and financial institutions sought to persuade the Federal government to privatise the nation's natural resources. This project was commended in the name of modernisation. To transform the planned economy into one driven by markets, property rights had to be adopted that were consistent with what is accepted in the West. The history and psychology of the population were not allowed to intrude in the madcap rush to privatise.

Boris Yeltsin did everything according to the instructions which he received from Western consultants and the International Monetary Fund. The profound effects of privatising land were not weighed in the balance.

Previous privatisations, which rode roughshod over cultural traditions, took much longer to engineer.

In England, the enclosures were drawn out over 300 years. Even in the most concentrated phase - 3,280 Bills were passed by Parliament from 1770 to 1830 - the loss of use rights was spread over three generations.

Land "reform" spearheaded the eclipse of the Ottoman Empire. Action was initiated in the 1830s under the guise of secularisation. The legal process of privatising the land continued through to the Land Code of 1867, so the social disruption spanned 30 years.

In Russia, Yeltsin was pushed to transform land rights in three years.

It was an impossible feat of social engineering. It could not, and did not, work. But the attempt delivered the Federal government into the hands of financiers, the "investors" who were willing to bail out the government in return for a share of the flow of Russia's rental income.

**WHOEVER captures the revenue that naturally belongs to the State is responsible for stealing the power of the State.**

That is the essence of what happened in Britain, in Turkey and in Russia. It is important to analyse these events in terms of the distribution of power, if people are to avoid being deluded by the trappings of democracy. The Russian experiment is important because, by throwing the fast-forward switch, people can see with clarity what happens when the public revenue is privatised. The State is privatised.

In the West, privatising the public revenue began in the 12th century. Incremental changes were small and slow in coming. This afforded time to put in place the political and legal arrangements that were necessary to enable the States to function despite the regular financial crises.

In Russia, the default on the government's debts was an admission that the Federal government could not determine its own destiny. Without the revenues to pay for public services the Federal Government had no choice but to borrow until it was forced to declare itself bankrupt.

But the fall of the Kiriyenko government now offers Russia a fresh beginning. Boris Yeltsin can rescue himself from the ignominy of being an architect of one of the most shameful defaults in history, and he could do so by appealing for the support of the President in the White House. These two men need to redeem themselves: Russia affords them the opportunity to facilitate a programme of moral renewal. The challenge is not a financial one: it is nothing less than the willingness to reclaim the soul of Russia.

The practical solution exists, and it now appears to be finding favour in Moscow. The starting point is the redefinition of public finance, based on the acceptance of social justice as well as the quest for economic efficiency. The solution would embrace the need for a sound currency. That is why *Land & Liberty* is advocating a new currency to supplement the rouble. We propose to call this currency the RentRouble. This would perform two functions.

- It would restore people's confidence in the rouble.