

Land of Hope

- The RentRouble would be part of a programme of reforms that would guarantee long-term prosperity. Russian statesmen of the future need not be preoccupied with the search for solutions to "social exclusion", which is high on the agenda in Europe and North America today.

THE ECLIPSE of the USSR provided the West with a golden opportunity.

It was possible to develop a blueprint for Russia that would establish a fair and efficient society. That opportunity was flunked. That all is not lost is largely due to the democratically elected politicians in the Duma. Most of them have been vilified in the Western media as throwbacks to the Communist era. But for all their shortcomings, Russia owes them a great debt. The Duma delivered most of what the President wanted. But it drew the line on the two issues which go to the heart of personal freedom and a viable ("sustainable") social system.

- **The Land** Yeltsin huffed and puffed, signed unconstitutional decrees and browbeat regional governors, but he failed to legitimise the privatisation of the land of Russia.

Largely through gut instinct, coupled with a pre-revolutionary distrust of land speculation, the majority of politicians resisted the demand that they privatise their nation's land.

- **Taxation** The West wanted to "harmonise" the nightmare structure of taxation which Russia inherited from the Soviet Union. Something made the Duma resist the crudities of public finance that were being visited on them by foreign consultants.

Most tellingly, Yeltsin wanted the Land Tax abolished and replaced with a US-style property tax. This was actively canvassed by the US Agency for Inter-national Development. The Duma foiled this ruse.

These two issues provide the framework for a fresh attempt at renewing culture and economy.

THE SHIFT in the centre of power in Moscow is also matched by a remarkable change in economic attitude.

Analysts think that the compromise government of Yevgeny Primakov is

a disaster for those who favour market reforms. It is no such thing. Primakov is a man of independent mind.

The first indications of a shift in policy came with a private briefing by the Premier to the Council of Federation (Parliament's Upper House) on October 14. According to the transcript of his confidential speech, which *Land & Liberty* has obtained, Primakov served notice of his plan to reverse the fiscal policies of Viktor Chernomyrdin and Sergei Kiriyenko. He said:

"I would like to mention the main changes we are going to undertake. VAT, and profits tax, will be reduced. At the same time we are creating a system which will permit us to get substantial revenue from taxing raw materials monopolies, and we intend to get [the revenue] the way that it will not prevent them from developing their exports".

By this definition, the Primakov government is going to charge rents for its natural resources, rather than employ taxes that distort production.

This shift stems from the fact that Primakov is advised by economists who understand that isolating rent as public revenue provides the best possibilities for economic growth and for reclaiming the power of the state from the gangs that now run Russia. Corruption is possible only when the public revenue has been privatised by a lawless state.

Confirmation that this is Primakov's intention came on October 31 when the government approved a stabilisation programme. This included substantial cuts in the taxes which damage the economy. Profits tax would be reduced to 30% from 35%; payroll taxes to 31.5% from 39.5%; VAT reduced progressively to 10%; sales tax down to 5%. And on November 6, the *Izvestia* newspaper reported that the government had sent to the Duma a Bill on tax reform which would raise more revenue from natural resource rents and double the Land Tax from 2% to 4%.



Primakov will not be browbeaten by carpet-baggers.

But the West does continue to exercise some influence. How the governments in Washington, London and the capitals of Europe now react could affect their own citizens in the long term.

The first reaction, from the IMF, was disappointing. It withheld loans because it disapproved of Primakov's rescue plan. The Premier believes that state intervention is necessary to bolster domestic production and pay wage and pension arrears. The IMF calls this a "significant step backwards" from the market economy. The Fund's officials quit Moscow in November after refusing to release \$4.3 billion of the \$22.6 billion package agreed in July.

Will the IMF support or hinder the Russian government's desire to set the course for a new social and economic system? The ailing Boris Yeltsin could still summon the strength to play one last hand in the game of poker which he appears to enjoy. He still occupies

the Kremlin, from which he could appeal to President Bill Clinton for help. Russia wants nothing except a fair deal.

Some of Primakov's key advisers, in private conversation, say they are searching for a geopolitical programme that would ensure that the natural resources of Russia were a legacy for the whole of mankind. Primakov is edging towards a development programme that would turn that aspiration into practical politics. *He must now explain why the rent-as-public-revenue policy fulfils the promises of the Enlightenment philosophy.* And Bill Clinton needs to tell the IMF that Russia is entitled to the moral and financial support that would help her to break loose from a disgraceful past.