

## Old Guard in from the cold

Tanya Roskoshnaya meets the economist who has emerged as one of the architects of Russia's new economic policy

The centre of ideological gravity in Moscow has shifted in favour of the academicians who were frozen out during the period when the so-called reformers exercised influence over Boris Yeltsin.

When the Duma faced down the President and forced him to accept Yevgeny Primakov as Prime Minister, panic set in among people like Yegor Gaidar, the first Prime Minister who introduced the "shock therapy" monetarism which set Russia on its disastrous course.

But the Soviet era academicians who were brushed aside are now back in favour. Leading them in the talks to develop a rescue plan is Leonid Abalkin, who was a senior advisor to Mikhail Gorbachev, the last President of the USSR.

We met in the Institute of Economics, of which he is Director, just before the Federal government defaulted on its debts. I asked him to speculate on what would have happened if the monetarist model had not been imposed in 1992 at the end of the years of *perestroika*. He replied that the model of economic development they were foreseeing at that time included the use of rent as a major component of public finance.

"When I held a position in the Gorbachev government I received a number of proposals from Western scientists about the rental approach. This refers both to rental payments for the right to use land and natural resources. Even now it is still possible to use this approach, if there is a radical transformation in the present course."

He said that the Belgorod black soils region in southern Russia was currently experimenting with a single tax on rural land, with payments varying according to soil fertility. The peasants are allowed to pay either with cash or with the products they produce. Everything else is tax-free. The governor was allowed to abolish all taxes on goods produced in the region. But they do pay the VAT on products imported into the region. A similar experimental approach is taking place in Tula (a region where Tolstoy had his estate).

Mr. Abalkin was concerned with the ambiguities in current legislation, which had created uncertainty over the ownership of natural resources. "Who is the owner of diamonds in Yerkuzia - Russia, as a state, or the region?"

His colleague, Dr. Dmitry Lvov, the Academician Secretary of the Russian Academy of Sciences (Economics Department), has proposed a philosophy which Mr. Abalkin finds appealing. "The concept proposed by Mr. Lvov is that the

diamonds should belong to the population of the whole country." Based on this view, it would have been possible to ensure a fair distribution of the rental income among the whole population.

"This policy of rent as public revenue was relatively easy to introduce in the conditions before 1991, because we really had state ownership of all the resources. The system that Lvov proposes is that every citizen has equal rights in natural resources as equal co-owners. These resources are not connected with labour, they are given by God.

"It is still possible to bring into life the system that Lvov proposes. But this doesn't exclude other taxes. For example taxation of small businesses. Payments for the right to occupy a place in the market".



We asked Dr. Abalkin about the pre-conditions for introducing the Lvov model. He replied: "The country is living under conditions of very serious economic and social crisis. In addition, we also have an ethnic crisis. A lot of regions are recognised as national regions. This is leading to a trend towards separatism. If we don't manage to overcome this type of crisis, it is difficult to think and speak about implementing Lvov's proposal." This regional claim on natural resources, the oil, diamonds and other precious metals with which Russia is so generously endowed, "is probably the main obstacle to implementing the policy of rent as public revenue".

During the late Soviet period, he said, the Ministry of Finance was extracting the rent directly by means of variable prices. And that revenue was used for purposes such as pensions.

But the rent question was not recognised as a problem until the reforms began, "when the

rent became the source of revenue not of the state but the private sector as a result of the privatisation of assets.

"You know the stories about the New Russians, Mafia, they are using money quite differently from people in the West. For example, Moscow probably has more casinos than anywhere else. The majority of the population live in poverty, and at the same time people throw money in the wind. That is why we can say this problem is one of the central problems. The right to use the rental income is being monopolised.

"But there are serious opponents to dealing with this problem because they receive the rent and they will try to protect their rights. So there has to be a general economic situation that favours the implementation of rent as public revenue.

"Another serious problem is that the privatised rent is being used to bribe civil servants in the government and buying the mass media".

Mr. Abalkin declined to offer a view on why Yeltsin had changed his mind about the social ownership of natural resources. "There are considerable transformations in Yeltsin's thinking. He is different from the person we had in 1990. The only thing we can say now is that very often money spoils people."

Back in 1991, did Gorbachev have a clear vision of how to develop Russia? "I worked with him very closely. He is a really talented, outstanding person. But unfortunately, he was a person who could be influenced by others. He is the master of short but very strong love. That is why he is able to pronounce different things at different times." Gorbachev was lionised in the West, which was fatal because "he over-appreciated himself". And he allowed himself to be isolated and therefore vulnerable to the aggressive tactics deployed by Yeltsin.

But was there a plan in Gorbachev's mind that would have facilitated the change which he initiated during *perestroika*? "Niet." Mr. Abalkin sent him written warnings as early as 1985, drawing attention to the inconsistencies of policy proposals. Gorbachev came up with new slogans like *perestroika* and *glasnost*. It was the absence of a coherent strategy for developing the Soviet Union which was ultimately to prove fatal to the Communist Party. The fall of Gorbachev and the rise of Yeltsin heralded the era of a simple market model based on monetarism which finally collapsed in August. Mr. Abalkin and Dr. Lvov are now proposing a more complex approach to evolving the economy, and they appear to have regained their influence in the Kremlin.