This item appeared on page A23 of the July 7, 1998 of

The New York Times

# Russia Should Put Its People First

## Following Poland's Example

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Washington

Last year Yegor Gaidar, the architect of Russia's early economic reforms, predicted that by the end of 1998 Russia would be where Poland was at the beginning of 1992 - that is, well on its way to a market economy.

Well, that should not have been his yardstick for the Russian economy. As a former Polish Finance Minister, I believe that if Poland had continued the policies pursued up until 1992 (the infamous "shock therapy") we would now be where Russia is today -- that is, in a seemingly permanent financial crisis. "Shock without therapy", as we called it, was Poland's attempt to privatize without a social safety net. The idea was to liberalize and privatize as quickly as possible. This led to growing poverty and unemployment as well as social and political tensions.

Poland had a fundamental institutional problem, just as Russia does now. The core of Russia's troubles is not the turbulence in its financial markets or the fallout from Asian crisis, but mismanagement. An economy in which 45 percent of the national budget must go to the ever-rising costs of servicing the nation's debt, in which the new rich do not pay their taxes and the new poor cannot make ends meet, and in which what was said yesterday does not matter tomorrow -- that is not a market economy. It is a mess, and the crisis is far from over.

Yet Russia and the International Monetary Fund are throwing hot grease on the fire by insisting on stringent measures in return for a bailout. Russia has been forced to impose prohibitively high interest rates and cut 30 percent of its budget for "unessential" programs. Thus, it is not paying salaries or pensions just to pay the interest on the public debt. In other words, for the illusion of fiscal and monetary prudence, Russia has to kill its own economy and shred its social safety net.

In Poland, we finally discovered how to manage our economic affairs by establishing a "Strategy for Poland" -- a way to introduce a market economy without hurting the people. Poland privatized companies gradually (while insuring competition), controlled trade and opened financial markets. As a result, inflation fell and unemployment and domestic debt declined, as did foreign debt. Output and consumption soared.

But there was another, equally important facet of our success. Poland did not look to the international financial community for approval. Instead, we wanted Polish citizens to go along with these reforms. So salaries and pensions were paid and adjusted for inflation. There were unemployment benefits. We respected our own society, while doing tough negotiating with international investors and financial institutions.

Indeed, the most dangerous threat to Russia is a counterrevolution against the market sparked by the growing -- and justified -- grievances of its people. If this threat is understood by Russians leaders, then indeed it is not too late. But the United States and other leading industrial nations, international financial institutions and Wall Street must understand this as well, and not impose another I.M.F. bailout. This would only create social dissension without addressing Russia’s fundamental problems.

Russia needs good advice. But the international financial community is not able to provide it. There is an inherent conflict of interest. Russia and the world must understand that the interests of, say, Siberian miners and short-term portfolio investors are even further apart than the interests of a fish and a fisherman.

Perhaps development policies for Russia should be coordinated by the Organization for Economic Cooperation and Development, the group of advanced industrial democracies that has vast economic knowledge but no money to use as a cudgel.

Polish folk wisdom says there is never too late to make a change for the better. Let us hope that this will prove true for Russia as well.

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