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**Dr. Yegor T. Gaidar**  
**Member of the State Duma**  
**Federal Assembly of the Russian Federation**

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My dear friends! Since I assume that approximately half the audience speaks Russian, while the other half is English speaking, with your permission, I will speak in Russian.

My dear friends! Those of us gathered here have personal experience working during the post-socialist transition, and thus it is often easier for us to understand our common problems. I will be speaking about the problem of poverty as well, but, with your permission, first I wanted to say a few words about the general problems of transition, which have been touched on at this meeting. Our friends who had the fortune to be born and to live their whole lives in stable democratic and efficiently functioning market economies naturally tend to extrapolate their own experience to the analysis of the problems that are associated with the fall of socialist regimes and the choices that then have to be made. This is the source of the debate that was mentioned today about whether it would have been a good idea to first institute economic reforms and then political reforms, or whether first political and only then economic reforms would have been preferable. All this is truly very remote from the real choices we confronted at the end of the 1980s and start of the 1990s.

I thought it was very appropriate when someone drew an analogy to the American Revolution. As a man, who like Mr. Adams, had the good luck to be on a very short list of three people – candidates for immediate execution in 1993 - I can say that the choice we faced was absolutely not the one being debated. People in Poland founded *Solidarność*; the Popular Fronts were created in the Baltic region; the Berlin wall fell; they marched on Wenceslas Square in Prague; in 1991 in Moscow they surrounded the White House, not because they wanted one or another direction of economic reform—gradualism or shock therapy - but because the regime had lost the moral right to govern the country and countries; because the people had denied it their confidence; because they no longer understood why someone should determine their future for them; because they wanted to live under conditions of freedom and democracy. And this is the given that further determined the catastrophic fall of the terrible bloody totalitarian regime.

A socialist economy may exist and undergo some sort of reform while it is still a powerful totalitarian regime. If it does not, then its framework, what supports it, falls to

pieces. Then the issue of creating a market becomes a real necessity. Rules of supply and demand cease to be the subject for academic discussion – should we reform it this way or this other way?. That is, if our old political and economic system has collapsed, we immediately need some kind of new system, any kind, and this could only have been the market system, which would function, at least in some form, to allow bread to appear in the stores, electricity in homes and so forth. Or we would have had interethnic chaos with terrible catastrophic consequences, such as we, unfortunately, saw in a number of post-socialist countries. This is the first given that we must understand when we discuss aspects of transition.

Here is the second given. It is associated with the fact that if socialism, with all its socialist institutions, collapses on you, this does not at all mean that you have all the preconditions for the functioning of a normal market economy. That is precisely what you do not have! Not only do you not have the appropriate institutions, but most importantly you do not have the appropriate traditions.

Frequently people imagine the situation as follows: Well, the Soviet Union and socialist countries, despite everything, were rather highly developed societies with powerful government institutions, etc. So, why can't these powerful government institutions be used for solving the problems of institutional support of post socialist reform? Yes, there were powerful institutions, but they were absolutely not institutions that could be used and should be used under conditions of a free market. In the Soviet Union there were 100 sector Ministries, which kept busy regulating the production of every nut, every cogwheel, every tractor, issuing specifications, setting supply plans, etc. They were unnecessary and could not function normally under market conditions. But in the Soviet Union, another thing that was not normal was the Central Bank, we did not have a normal tax agency, a normal customs agency, a normal commission on securities. We did not have a huge number of other things that are absolutely essential for normal functioning of a market economy. And the governments that grew up on the foundation of the Soviet Union's republics had these things to an even lesser extent. For this reason we had an extremely difficult task, the urgent task of institutional development on a nonexistent foundation.

The third thing was even more difficult. It was said today, with complete accuracy, that a normally functioning market is not simply a matter of market laws, or simply market prices, nor is it only market institutions. What it is primarily is market traditions - traditions and behavior. Tomorrow, if we were to take the United States with all its institutions, all its laws, and do away with a century of market traditions, the United States would be a jungle the day after tomorrow. This is true because, in truth, it is not the police who maintain order; order is maintained by traditions, by standards of behavior which were nowhere to be found after 75 years of socialism.

This is truly a unique challenge – creating an effective democracy and market economy after the fall of socialism, which did not have standard solutions. Here we had no previous experience, no one, fortunately, had ever yet emerged from collapsed socialism, from industrial socialism. Yes, we had some ideas about what the problems might be.

We knew a thing or two at the time socialism fell. But you have to understand that this was just a set of hypotheses. We had no experience we could lean on, there was no good instructor who could come and say: "Dear friends! Let us do this and that and the other thing and everything will work out just fine!" That is, there were such instructors, but, unfortunately, their advice was not always useful.

In this regard, the process of post-socialist transition is a process requiring a great deal of innovation and a process of learning through doing. I remember very well how, in the autumn of 1991, the world in general thought that the Polish reforms were collapsing. I did not believe this; I knew this team very well; I liked what they were doing. But I remember in 1991 how I went to a conference along with Gzheush Kolodko, a famous Polish economist who then was Minister of Finance, and he presented his book, which was titled "Lost Opportunity!" It told of what a collapse all the reforms of Blatserovich led to, unfortunately. However, today Poland is the universal example of how reforms should be undertaken, and of how successful they are, and how quickly they lead to economic growth, growth of living standards with a relative decrease in poverty, etc. This was very far from obvious in 1991. In 1991 the scope of post-socialist depression was not obvious -- this precipitous decrease in production of old socialist products was inevitable, as experience showed. And it was only gradually made up for by growth of new production in the new private enterprises. Afterwards this Polish experience began to be considered more or less the standard. Their economic growth which started in 1993, picked up speed and became increasingly obvious. It became the accepted thing to sincerely believe that we would have the same experience. Yes, Poland showed that it needed to go through three years of recession, before everything went normally. Why three years? And who said that creating a market economy in Tajikistan, for example, is as simple as in Poland? Who proved that doing this in Russia would be as easy as in Hungary? How did they know that a vastly longer experience of socialism would not have an effect? Here you must understand that now we better understand the logic of transition. Nevertheless, we are only gradually becoming aware of the actual set of possible alternatives and consequences of one or another policy. Of course, what we have begun to understand is that history has enormous significance. Those countries that are seen as leaders of the transition today were countries where socialism was imposed, imposed with bayonets; where it had a relatively short history; where there were still people living who, at the moment of collapse, remembered what a market economy rather than a socialist economy was; whose children became the foundation of the political elite; where the collapse of socialism was perceived as a return to normal life, which had simply been interrupted. And of course, it turned out to be much more difficult to solve these problems in countries where this sort of historical experience did not exist; where three hundred generations of people had lived without ever seeing a normal store; where the memory of these market institutions had been undermined. This is the first thing.

The second is that it turned out that of course, politics are significant. Because in countries where in view of well-known reasons they succeeded in forming a rather broad consensus among the elite on a number of issues, particularly, reintegration with Europe. For Poland, Hungary, or Estonia there was no question that this was his strategy. It was clear that this was a return to Europe, from which it had been torn against its will, a return

to the European union. Participation in the European Union, indeed gives you the framework and a standard for what you must do in the financial and banking area and the protection of property rights. You can argue as much as you want in the election campaign, but as soon as you sit down in the Minister's chair, your freedom to maneuver is extremely constrained. The Soviet Union and countries formed from it – Russia, the Ukraine, etc. - were another matter. This consensus did not exist there,. There was a furious battle over selection of routes. Policies there were much less rational, with serious declines, digressions, a long period of financial and monetary instability, low confidence in the national currency, low rate of compliance with taxation laws, etc. The transition, of course, turned out to be vastly more complicated.

If we werenot meeting today, but in 1998, the pictures would be of two divergent developmental paths, which dominated in the world and in the post-socialist states. On the one hand, we had the successful reformer nations, which had proven themselves to be adapted to the market economy, or who were able to adapt themselves to it. We watched them develop successfully; their per capita Gross Domestic Product grew rapidly; their foreign investment grew as well, and poverty decreased. On the other hand, we had other countries that unfortunately did not succeed. We saw their production drop rapidly; we saw the increase in poverty. This is all true. But now when we look at all this from the perspective of 2001, this picture of the world has stopped seeming so self-evident. After three years of stable growth in Russia and the beginning of growth in the majority of other countries formed on the basis of the Soviet Union, social indicators are improving. In general, the picture looks like this: For the countries in the first wave of reform everything was easier; everything was quicker and less painful. Of course in our countries all this has proved to be *vastly* more difficult, *vastly* more painful, with *vastly* greater social costs, but this does not mean that we have not been able to start our journey on the road of normal, stable social development. Nevertheless the situation in the majority of countries represented here is vastly more difficult and requires innovative solutions for the following reasons. First of all, the drop in the GNP was greater, and secondly, in addition to this decline, the Internal National Product share was greater and the capacity of the state to redistribute it was much less than in Eastern and Central Europe. Thirdly, this led to an additional increase in social inequities and to the formation of powerful strata of stagnant poverty. Fourth, under these conditions, state financing proved extremely ineffective and was frequently totally corrupt and could not be an effective instrument for developing and implementing government functions. These are objective problems.

And the solutions?We must find them for ourselves. Once again I emphasize that unfortunately, even now there is no teacher who can come here and tell us, “Dear friends, now I know how to solve these problems. All you must do is this and that and the other thing and everything will be just fine!” Unfortunately, we ourselves have to find the solutions. There are a number of different ideas related to our experiment about what we are doing now – there are different ideas in Russia, as well.

First, experience shows that bad polices always yield bad results. I mean that bad economic policies always lead to the same bad results. That is, there is always a selection

of standard bad ideas, for example: “Let’s just print a great deal of money in order to stimulate demand and fund social expenses, and this will lead to economic growth and then we will redistribute the results” etc. All this has been tried dozens of times in our countries and the results were always the same and predictable. This always led to a new wave of inflation and an even greater decrease in confidence in the national currency.

But this one is simple. What is harder? The fact is that all the solutions that are accepted in stable market democracies do not produce good results all the time. It is very simple to think up bad policies for post-socialist transition. It is much harder to think up appropriate ones because they must take into account all the aspects of the actual situation here - not someone else’s situation; not the situation in France, England, Italy, or America, but our real situation, the situation of our governments. Here is a typical example - the situation with the system of taxation. The tax system that was created in Russia, and in many other states formed from the Soviet Union, was completely normal and had the type of legal foundation typical for European states. The structure of the tax system that was developed in Russia in 1992-1994 was very similar to, let’s say, the French or Italian tax system: the proportion of value added tax, social security payments, income tax, indirect, direct tax etc. But in Europe, this system was based on a long, long history of democracy among the tax payers, an effectively functioning government and tax collection system, a high level of awareness of the need for taxes among the public, and a tradition of paying taxes. This was the same thing – in essence the same, with the exceptions of such exotic refinements, as the sales tax system—that was imposed on the Russian bureaucracy, the Russian method of tax administration, and the Russian attitude to the tax system. As a result we ended up with a system that was full of holes and very ineffective; where the maximum tax assessment was extremely high; where nonpayment of taxes was a mass phenomenon; where an honest business that wanted to fully comply with tax laws ended up being noncompetitive with its less honest competitors and could not remain in business. And so because of the political process, when we tried to set up a normal, civilized European tax system (with the usual imperfections, since they, as a rule, are far from perfect), we got an extremely badly run system, which demonstrably impeded our economic growth and prevented us from mobilizing our resources, including those for solving social problems. Then we decided that we had to find our own way out and proposed the concept for a radically different tax system, which has now been approved in Russia, approved by our Duma, and has partially gone into effect in 2001. The idea was extremely simple: since we are stuck with the Russian attitude toward paying taxes and the Russian taxation administrative structure, we need to adapt our tax system to these givens—and thus, let us make it extremely simple. Extremely! We cannot permit ourselves to make it as complicated as it is in more stable, developed democracies. We must make it much better – vastly more equitable, with vastly lower task assessments, with a vastly broader tax base. This is the source of the flat rate income tax, thirteen percent, which we introduced in 2001, and the source of the twenty four percent tax on profits, with no deductions or tax benefits, but with the normal liberal method of deducting expenses. This is the source of the single, but regressive, social tax which is used to fund, primarily, the pension system. This is an example of simplifying the tax system to make it neutral so as to minimize manipulation as much as possible and thus make the tax burden acceptable from the public’s point of view.

Now, it is too early to talk about results. The new tax system has been partially set up, and has just begun to operate. When we shifted over to a flat income tax, we hoped that this would have no net effect on revenue to the federal budget, that we would not lose money, and, in our heart of hearts, we hoped that we would even increase revenue with time. It is too early to speak of the results in general, but the results of the first six months have shown an actual increase in revenues of 40 to 50%. This means that the system was successfully adapted to our actual conditions, our actual capacities.

The second direction, which is important for the business climate and for solution of social problems involves issues of administrative regulation. The system of administrative regulation of businesses - registration, inspections, monitoring, licensing - that had been set up in Russia differed in no fundamental ways from that used in developed, stable market democracies. If you look at the rights of the health or fire inspection service, or the tax inspectors in France and in Russia, they are similar. But for some reason in France, despite all the problems they have there, this is a more or less normal mechanism for state monitoring. While in Russia, it became a technique for extorting money from businesses; a stimulus for increased corruption; a pretext for arbitrariness; and an administrative barrier to entry into the market. One needs to understand that this happened because, we have the administrative system and the personnel that we do. And no matter how much we want it to, it will not become something else tomorrow. This is the source of the idea which has been partially incorporated into the regulation package that we have now adopted and are getting ready to implement - the idea of limiting the administrative functions to those who are truly essential. This is why we adopted a law which reduced, by a factor of 10, the types of businesses that require licensing and stringently regulates the rights of the inspection agencies and the sequence of inspections they can perform. Now we are working on a new certification law, which will help all these systems correspond, not with the system adopted in Europe, but with what can actually operate normally under conditions in Russia, and which we assume will not be a terrible barrier to the development of business.

But, let us talk about a related area, not tax rates, but tax regulation and tax rights. We, I believe, are the first country in the world that has included in the tax code, in the very first section, the presumption that the tax payer is innocent. Our law dictates that the taxing organizations must prove that the tax payer is guilty, rather than the taxpayer having to prove that he is innocent. And when we did this, we took an enormous risk, because it was so unusual. And in general, many of our Western colleagues, including some of my friends and colleagues from the International Monetary Fund, advised us not to do this under any circumstances. We did it anyway; it works; our tax revenues increased after it was put into effect (of course, this does not necessarily mean revenues increased because it was put into effect). However, tax revenues after we put this standard into effect, increased by almost a factor of two in real income over the last two years. No one wants to fight in vain with the tax police, with the tax inspectors. But this tool disciplines the system of the tax agencies themselves and prevents them from acting in a patently arbitrary manner.

Labor laws. Here it should be said that we have not made any errors because we have a system of labor law inherited from the Soviet Union, and we have kept it virtually in its previous form to the present day. This is a system, which, of course, was set up under conditions of socialism. It in no way accords with any sort of market realities, and because of this, retaining it allows us to have an extremely liberal real-life labor market. When and/or if the labor system is an obvious mismatch to actual conditions, then life goes on outside of this system. This, of course, has its advantages and also its serious disadvantages, in that, as a result, we have an absolutely unprotected hired worker. This is true in fact because a worker is more than protected with respect to regulations (he cannot be fired, etc.). However, in actuality he is not protected at all; the relationship has not been formalized. And here, given the gradual stabilization of the situation - the beginning of economic growth, aspects of the investment climate, the emergence of the shadow economy - this is compelling us to find new solutions that will allow us to constrain labor relations within the framework of regulations. Currently, this is causing a serious battle revolving around the new labor code, which, evidently will form the central portion of the fall 2001 session. I hope that we will, nevertheless, attain some compromise on this code, which will allow us to have liberal (more liberal than the average European) labor laws – laws that still reflect our real capacities and needs.

The most difficult problem for Russia and for many other countries is the problem of employment; the problem of people losing jobs in the process of restructuring industries and businesses, particularly in the so-called one-industry cities, cities that grew up and developed around one mine, around one defense plant, etc. When and if it becomes clear that this business, in its current form, is not needed, this is not simply an economic problem, but a serious social problem. Unfortunately, here there are no standard solutions, here there is no set of such obvious tools.

Nevertheless, I would like to tell you about two positive examples of what we have succeeded in accomplishing. These examples exemplify principles that we are to likely to use again, since we, unfortunately, are only at the beginning of serious problems resulting from the restructuring of Russian businesses. The first example is the history of restructuring the coal industry in Russia. The topic has been very politically sensitive all these years and has given rise to great political passion. The World Bank was criticized for its participation in the coal industry restructuring program. In my opinion, today when the dust has settled, we can say that this was one of the most successful programs that has been implemented. In 1994, for example, approximately 900 thousand people were working in the Russian coal industry. The profits from coal sales covered approximately 25% of the costs of the industry, while the remaining 75% was made up from the federal budget. Budget outlays for the coal industry were approximately 1.2% of the GNP and this is an enormous incomprehensible amount. And the situation got even worse. Today, there are 340 thousand people working in the coal industry; the work force has been cut by a factor of 2.5. The sector is now profitable and highly profitable at that. It is developing rampantly, growing rapidly, with large amounts of private capital investment. The social problems are basically solved; the laid off workers got new jobs. The situation in the coal regions, with rare exceptions such as the Rostov Basin, is virtually stabilized.

The essence of the solution was that we transferred the emphasis from simply investing money to maintain the status quo to investing money to alter the status quo. We worked not to maintain employment in the same form but to create an efficiently operating industry while, at the same time, creating jobs. And we succeeded; we did a very decent job. Now, of course, we must use this experience and apply it to our military plants. We have a serious problem with restructuring, for example, the Unified Electric System, RAO of Russia, and the railroad system—there are an enormous number of excess jobs in the railroad sector. All this, and more, has to be done before the problem can be solved once and for all.

In my opinion, the second successful example addresses the very serious problem of unemployment and associated poverty, including access to credit for business start ups in these one industry cities. This lack of credit is due to the natural weakness of the banking systems and the great risks of lending because of the inadequate safeguards of rights of creditors.

I believe that the most successful program of the European Bank for Reconstruction and Development in Russia in recent years, was the program (which I hope will be expanded) providing a \$150 million credit line for the provision of microloans to small businesses for development. In the face of all the problems of the Russian bank system, the bank collapse of 1998, the rate of repayment of these credits is higher than 99%. If you do not give \$10 million to each troubled bank, but instead give \$10 thousand to each small business, then, generally, the small business will want to repay the money because they want to retain their credit rating. And in the overwhelming majority of cases, they do repay it. This is one of the most important tools in the war on poverty, because it creates jobs and creates possible sources of growth.

The most important problem for us in Moscow, inherited from the Soviet Union, is also intimately associated with poverty – this is the problem of our pension system. The pension system stipulates very low retirement ages, 55 for women and 60 for men; the presence of an extensive list of categorical additional benefits such as those associated with hardship working conditions; and low pensions. Furthermore, people in the younger ages of retirement continue to work so that the low pension simply becomes an addition to their salary. And when people can no longer work and must retire due to an actual loss of working capacity (starting at 65 and beyond) the low pension rate is a serious cause of poverty among the oldest population category. Furthermore, you have to understand, of course, a direct increase of retirement age is politically, completely unrealistic. This is something that cannot be touched. Touching it, discussing it, is not realistic, at least, in the near future. It will become realistic only when there is a total collapse of the retirement system; when we completely stop paying pensions; or we begin to pay them in the amount of two dollars per month. Then it will become clear that we need very radical reforms, associated with revision of the very structure of the pension system and major changes in the retirement age. In Russia this is currently beyond the scope of actual political discussion. At the same time, it is understandable that compression of pensions took place and there was a major decrease in distinctions based on how long one worked and on mean salary before retirement. Furthermore, there were no incentives to pay



social taxes and make social security payments which were used to provide funds for pensions. This was the source of a) the problem of decreased revenues to the pension fund as a result of nonpayment of taxes; and b) extensive public dissatisfaction with how the pension system is structured.

What do we propose to do here? We propose to switch to a three-tier pension system starting in 2002. The first component will be a flat social pension of 450 rubles, which will be paid out of the federal budget to everyone attaining retirement age. This is a reduction. The second component will be a person's conditional contribution account, which will be directly associated with the contribution the person makes while he works. This portion will not come directly from contributions, it will continue to be derived from tax payments made by today's tax payers. However, the algorithm determining the amount of this payment will be directly related to what a person contributed to the pension fund.

And finally the third component, which will actually increase little by little, will be the individual contribution account, which will gradually increase up to 6% of pension payments, and which already goes to the support of purely individual contribution accounts.

Of course, as you all understand, from concept development to real life is a long distance. Let us consider how this will work. Hopefully, this will allow us to eliminate two problems. The first is that the urgency of the retirement age problem will dissipate; the amount of the payment will be closely associated with how much time you have worked and made pension fund payments. That is, the whole concept is structured to provide negative incentives for retirement too early. Secondly, there is the real interest of the worker in having their employers report their actual salary. In addition to introducing regressive social taxation and the flat income tax rate, we hope that this will be an important factor for further legalization of Russian economics.

The most serious problem is the problem of need-based social aid payments. Unfortunately, very many social problems that exist today were, in part, inherited from the Soviet Union, and based on the early stages of transition, are strikingly ineffective from the social point of view.

Here today we have the leading expert, Mr. Kosareva of the system of housing subsidies. Traditionally, this line in the consolidated budget is greater than the line for defense expenses. It is completely natural, you understand, that the quality of your living quarters is quite highly connected with your social status and how privileged you are. Thus, the bigger your apartment, the greater are the changes that you are rich and privileged, rather than impoverished and disadvantaged, and the greater is your housing subsidy. Moreover, although we are very reluctant to talk about this, traditionally the poorest and most disadvantaged strata of our population are those who live in villages or small towns, living in so-called private housing (that is what it is called). The poorest and most socially deprived do not receive housing subsidies at all. They pay all the expenses for their housing themselves. People ask, "But will the population be able to cope with

housing reform?” Well, the poorest segment of the population is already coping somehow now, while we essentially continue to give subsidies to the rich.

The most serious political problem is getting all political leaders to understand that that moving in the direction of need-based subsidies is absolutely essential. The process of moving in this direction is occurring *gradually*. The proportion of housing costs paid by individuals themselves is growing *gradually*. And the number of families receiving income-based housing subsidies is growing *gradually*. By the way, the experience of income-based housing subsidies shows that the number of those applying for them is always less than all our calculations, even the most conservative, because when you actually apply for them, you truly need them.

There is progress. The government has some understanding, but this is something that cannot be done from Moscow. This is an issue for the local authorities and this is a problem that we will confront for quite a long time. In general the issue of targeting social aid to those who really need it is key. By some calculations, we have two hundred and thirty-six categorical social support programs. And given all the money we pay out, again according to our fairly arbitrary calculations, 20% goes to help truly poor people and 80% goes to those who are not poor. There is general understanding that we have to move away from the system of categorical benefits given to absolutely everyone working in the procurators office, the customs service, the tax service, disabled veterans, those who have been awarded medals, etc.—toward a system that would be vastly simpler and would actually concentrate on the poor in our population, who will have to be defined in one way or another. But this is very painful. In practice, as soon as it comes to doing something, to actually shrinking this system of categorical benefits to people who are actually relatively influential and rich, it turns out that it is very difficult to mobilize the political will. I think that in 2002 this issue will be one of the most important on the political agenda in Russia.

I, of course, have not tried to draw the total picture of all problems associated with stable growth and creation of conditions conducive to decreasing poverty in the post-socialist nations. My time for this talk has almost run out. I want to make one more small observation, a very important one in my opinion, of a political and economic nature. In stable market economies the structure of the distribution of income is relatively stable and the proportion of poor people is relatively stable. At times, it increases a little when there is inflation, and then it decreases as a function of one or another program. But it does not undergo radical changes. It is relevant that there are always political elements that are generally oriented toward the interests of the more advantaged portion of the population and, on the other hand, there are political elements that appeal to the interests of the less advantaged people and protect their interests. I will not give examples here (they are obvious to everyone) from the political life of the developed stable countries.

In Russia, at least, and in my view, in many other post-socialist countries, where radical changes occurred in social status, including in the level of poverty – the situation is different and rather paradoxical. Imagine, that you belong to a political element for which the poor people tend to vote. Let us say, we have democrats, well, strictly speaking,

liberals. Who usually votes for them? Young people, educated people, and those who are more or less advantaged. Then there are other political elements, very understandably, that are supported by older people, those living in small towns and villages, and those who are relatively disadvantaged, relatively unsuccessful. Now imagine the purely pragmatic interests of the political elements for which the poor tend to vote. What would happen if the proportion of poor people in Russia decreased by a factor of three, along with their votes, their representation in the Duma, and their political power? This would be a catastrophe!

In 1998, I discussed the situation associated with the financial crises in Russia with my friend, Stanley Fisher, an excellent economist, then the deputy director of the International Monetary Fund. I tried to convince him that hopes of a package of anti-crisis measures passing the Duma were absolutely nil, that this simply would not happen. And he asked me why. After all, there are many countries in which, under conditions of obvious acute crisis, political consolidations takes place and people, to avoid financial catastrophe, were ready to agree to vastly more radical measures. I explained to him that even among Communists there are people devoted to the interests of the country's development, but, purely pragmatically, an increase in poverty is an increase in the number of votes they get. And elimination of poverty is always a serious problem. And now, unhappily, this has been confirmed many times in practice, including what happened in 1998. This is just why we, as liberals and reformers, were compelled out of practical considerations to first think about what to do to decrease poverty. Not because we hope that the poor people will begin to vote for us tomorrow. Unfortunately, that will not happen. But the more people there are in Russia who are not poor, the larger the Russian middle class grows, the greater will be the objective base in Russia for stable development on the road to a market economy and stable democracy. In this regard, the problem of poverty is our most important problem.

Thank you.