

Q: Analyse the Sources and Significance of Corruption in Post-Communist Russia

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In Post Communist Russia, corruption has always been seen as a major problem for many people. The aim of this essay is therefore to explore the main sources and consequences of corruption with particular reference to Russia in the post communist era. In order to do so, we will start by defining corruption, then drawing a broad picture of the scale of corruption in Russia since 1992, after that we shall look into details of where the corruption could actually take place and then move on to talk about its consequence followed by a conclusion.

Defining Corruption

Corruption is a word that has many different meanings in different contexts. In social political economic terms, corruption simply refers to the use of public goods for the private gains, is a word to describe a situation when, “an official (the agent) entrusted with carrying out a task by the public (the principal) engages in some sort of malfeasance for private enrichment which is difficult to monitor for the principal.” (Bardhan 1997, 1320) There are many different ways and forms of corruption, a typical example could be an asylum seeker bribing an immigration officer for the purpose of granting his or her application. If this immigration officer agreed to do so after receiving the private benefit from this asylum seeker, then we could say that this government official has abused his or her position as a representative of state by using his or her public power for his or her own private gains. In this example, this immigration officer therefore is corrupted.

The Scale of Corruption in the Post Communist Russia

In relation to the case in Russia, the general impression that corruption is widespread is accepted by many people. We could confirm this by looking at probably the most widely quoted survey- Corruption Perception Reports, which was conducted by Transparency International, based on subjective impressions of business people. In this report, the rank of Russia is consistently poor. For example, in 2001, Russia had been perceived as the 79th most corrupted country out of 91. In 2002, it was 71st out of 102 and in 2003, it was 86th out of 133 etc. The most recent one (2006) has placed Russia as the 121st out of 163. (Corruption Perception Reports, Transparency International) The BEEPS survey from the Transition Report 2006 indicated that the frequency of bribery (which is the percentage of respondents who agreed they have to pay some irregular payments/gifts for activities related to customs, taxes, licences or services frequently) by the Russian firms in 2005, was 39.3% in comparison with countries such as Germany, which got 8.17% at the same time. (The Transition Report 2006) Of course, there is no precise figure to tell us about the exact amount of money which has been spent on bribery in Russia each year, since these are sums associated with high-level corruption which are essentially impossible to estimate. However, based on all of these figures we have presented above, one thing we could conclude is that the problem of corruption in Russia is serious and there is a need to study its sources and impacts.

Sources of Corruption

To talk about the sources of corruption, we need to begin by looking at the main factors that caused the corruption in Russia since 1992. There are many of them, in order to make you easy to read and understand; we will broadly divide into two main categories: historical factors and social political economic factors. Let's talk about them one by one:

The first reason is the historical factor, which is the legacy of Soviet Union: the phenomenon of corruption in the post communist Russia is not new, it can traces back to the Soviet time. "It is a direct legacy of years of all-pervasive bureaucratic control and an economy that was forced underground." (Dempsey, 1998) During this time, the government interfered in every part of Soviet life and the bureaucrats would demand payment or favours for everything they did. There was no standard rule of law for the people to live by in the Soviet state, the rules varied from one official to the next and the bureaucrats ruled. According to Dempsey (1998), this had all started in 1960s. This was the time when we started to observe the growing numbers and sizes of criminal gangs and organisations in the Soviet Union. When the last President of Soviet Union- Mikhail Gorbachev got into power and started to introduce reforms in the late 1980s, the connections between the criminals and the government officials became even closer and therefore the problem worsened. (Kneen 2000) The Soviet Union officially ended in 1992, but its' way of thinking had not; the economic and political elites largely remained, as did the clans and networks. The democratisation and liberalisation of Russia (since 1992) introduced competition, transparency and accountability, which was supposed to prevent corruption, but as democracy also means freedom, it subsequently provided many opportunities for corrupt politicians and government officials. Therefore, we could conclude in some aspects that "Russian corruption represents the extension of the informal culture and practices of the Soviet system to the opportunities presented by emerging Russian capitalism." (Kneen 2000, 349)

The second reason, which is the most important one: are the social political economic factors. The corruption in post communist Russia mainly resulted from 'the high degree of indirect state involvement' in the legal and illegal economic activities, joint with weak political competition. (Montinola & Jackman 2002, 151) This is because the state intervention and regulation on enterprises (without much pressure of turnover of political powers) along with an underdeveloped legal system, and a lack of law enforcement in Russia, (Levin & Satarov 2000) subsequently offered many opportunities for; on the one hand, powerful politicians, and on the other hand, government officials, who both abuse their positions with the purpose to gain their own interests. (Hellman & Schankerman 2000) Generally, in such an environment, politicians could "exercise their power by shaping regulations that give them greater discretion and scope for intervention..." as a result, they could "capture activities of a small number of firms in an attempt to gain competitive advantage through the political arena and [therefore] sharing the rents with politicians." (Hellman & Schankerman 2000, 548) Government officials, similarly could use their power such as to obtain public services, subsidies or other forms of state financing to receive private benefits from those of firms or individuals who need to receive these public services or goods. For example, in the old Soviet system, the state was the only source to command activities of firms through a system of planning and commanding,

without public watchdog and political competition. This had created lots of opportunities for the politicians and government officials, who abused their discretionary powers in regulating firms and the public, in order to extract bribes from those firms which were affected by laws and regulations. However in Russia's new system, though the planning system was abandoned, what replaced it firstly, was a range of benefits that state gave to the firms, in the hope to improve their competitiveness. Those benefits ranged from; explicit subsidies, to implicit subsidies, (Hellman & Schankerman 2000, 559). What replaced it secondly, was a very confusing taxation and customs system with excessive rates. (Varese 1997) These two replacements, in combination with; Russia's complex governing system, (in terms of regulating and licensing of the economic activities), underdeveloped legal system, lack of law enforcement, (Levin & Satarov 2000), 'weak' political competition and highly organised criminal activities, (Varese 1997) consequently created many opportunities for government officials to engage in the corrupt behaviours. Hellman & Schankermans' (2000) study has confirmed these points. In their study, they found that those countries with greater levels of state intervention in the economic activities and more complexity in the governing system, the firms (especially the small and private ones) normally have to pay a higher 'bribe tax' (in other words, unofficial payments/gifts to public officials). But opportunities alone could not facilitate the corruptions; incentives must also be involved. According to Rijckeghem and Weder (quoted in Pedersen & Johannsen), corruption occurs when the salaries in the public sector are lower than in the private sector. In such a situation, the government officials engage in corrupt activities, as a way to supplement their income. During Russia's transition period, this was particularly true. The salaries of government officials had declined dramatically in the real terms, with the opportunities available (mentioned above), they would normally use the corruption as a useful tool to generate new income.

Overall, based on above findings, we can conclude that the prevalence of corruption in post communist Russia became more likely. This was due on the one hand, to the behavioural norms inherited from the Soviet period. On the other hand, it was due to the high degree of indirect state involvement in the economic activities, (with the complexity of the governing system), weak political competition, highly organised criminal activities, underdeveloped legal system and the lack of law enforcement. The incentive for this sort of behaviour however were the inadequate salaries in the public sector. Therefore, the corruption resulted from a combination of all of these factors. Among them, the most significant source of corruption being the state's involvement in the economic activities with poor quality of governance.

Significance of Corruption

We have analysed the main sources of corruption in the post communist Russia, now we could turn to examine its significance. Corruption as a dynamic social phenomenon in Russia, it often associated with many negative political, economic and social consequences.

Political consequences: at the state level, the most obvious political consequence of corruption is that government policies become much more difficult to implement. Political goals could also deviate from the original aim in developing the nation, instead re-directing it, to serve the benefits of a small group of people (who have

enough funds) to bribe the powerful politicians for their own interests. Thus the credibility of state declines and “the prestige of the country in international affairs are damaged.” As a result, “Russian citizens become increasingly disillusioned with democratic values, stimulating the decline of democratic institutions. The potential collapse of [Russia’s] nascent democracy is thereby made more likely. The threat, that democracy will be replaced by a dictator coming to power on the wave of an anti-corruption program, then arises.” (Levin & Satarov 2000, 114) This point has been well proven by the recent developments of Russian politics; we have seen Vladimir Putin’s rising popularity in Russia (since 1999) despite many of his reforms, which have been criticized by the West as undemocratic reforms.

Economic consequences: economic consequences of corruption generate concerns in many areas.

The first area that concerned by many people is its impact on public finance. Here Shleifer and Vishny (quoted in Roaf 2000, 4) distinguish activities of corruption involving theft from the government and corruption without such involvement. For corruption that involves such activity, it would firstly distort the government’s structure of financial expenditure and therefore the government would have to allocate more money to the projects that are easier to corrupt; secondly it would reduce the effectiveness of government’s spending programmes since money cannot reach targeted areas sufficiently. As a result, this would affect the quality and quantity of services and goods that were provided by the state. Thirdly it would also affect the state’s revenues, since bribe payers could avoid paying the tax by bribing the government officials. According to Varese (1997), this type of activity was quite common in post communist Russia due to its confusing taxation system with high rates. So many small businesses and individuals therefore chose not to pay tax. The way they did this was simply to bribe the tax collectors. In the later case, it normally referred to corrupt officials charging bribes for carrying out their normal duties. The state would not get affected by this type of corruption, since the state does not generally get involved in financially corrupted practices. The parties that get involved are only between bribe payers and bribe receivers. An example could be a corrupt police officer demanding bribes before he or she will stamp the require papers produced by the member of public. To reiterate, the state would not get involved in this sort of activity financially, but it would get involved non-financially. Since corrupt officials would charge bribes for carrying out their normal duties, it reduces government’s credibility and quality of services that provided by the state. On the whole, the overall economic cost of corruption for Russia is enormous, according to the constitution society: (quoted in Levin & Satarov 2000, 115) “losses are associated with commercial transactions that are made, not on the basis of price or merit, but as the result of bribes, kickbacks, or extortion. It has been variously estimated that such corruption adds between 5% and 15% to the cost of goods and services generally.” Another source estimated that “[Russia’s] small entrepreneurs across the country spend a minimum of US\$500 million monthly on bribes to officials... some of 10% of total revenues in small and middle size businesses are taken by corruption.” (Levin & Satarov 2000, 115)

The second area that many people were concerned by, was that corruption could also reduce the Russian economic activities, here I particularly refer to the levels of private and foreign direct investment. Russia has got a relatively lower rate in the foreign

direct investments in comparison with other developing economies such as P.R China or India. One of the reasons is believed to be the problem of corruption. This is because corruption increases investment costs (uncoordinated corrupt activities in post communist Russia has made the prediction of the costs of bribery impossible), it reduces profits (as mentioned above, it is estimated that 10% of total revenues in Russia's small and middle sized businesses are taken away by corruption) and generates more risk, (corruption is a good way to kick the competitors out of the market). Thus lessens the attractiveness for the potential investors in Russia and from abroad, making consumers pay higher prices for the goods or services they received.

The third area that many people were concerned by, was the misallocation of skilled people which had direct effects on Russia's economic performance. This is because many 'popular' positions in Russia, both important and unimportant ones, were subject to briberies. This would result a misallocation of skills, since the popular positions being only given to the people who had bribed, regardless whether they were suitable for the job or not. When this sort of behaviour is rife in a society, it definitely has adverse effects on its productive efficiency. (Lawson 2006)

Overall, according to Mauro (quoted in Roaf 2000, 4), generally speaking, one per cent improvement in the corruption level is normally associated with a 0.2 per cent growth in GDP. In the case of Russia, this would mean that if Russia were able to reduce its corruption levels to the equivalent of other advancing transition economies, (such as Poland or Hungary) we could see an annual growth in the term of GDP by at least half a percent. (Roaf 2000, 4)

All in all, there is no single reliable source to tell us the exact amount of money that has been wasted on the corruption in Russia each year, but we could estimate that this amount is huge and in general terms it clearly has a direct adverse effect on Russian economy.

Social consequences: social consequences of corruption also generate concerns in many areas.

The first area of concern in corruption is that to some extent it creates social poverty. As we have analysed above, corruption does lower the economic growth rates. This has on the one hand weakened one of the most important factors that can pull people out of poverty (since economic growth could create more job opportunities, which will help to reduce the poverty). On the other hand, the corrupt behaviour might also distract resources from the goals of public development, and thus weaken the position of the state in provision of basic public goods or services. As a result, the poor usually suffer the most. (Levin & Satarov 2000)

The second area of concern in corruption is that to some extent it creates social inequality. This is because corruption boosts the unfair and unlawful redistribution of resources in favour of small groups of people or regions, at the expense of the strata of society. In the case of Russia, it normally is the oligarchs and/or major cities such as Moscow, which benefit the most from this redistribution of social resources. As a result, this generates social inequality. (Levin & Satarov 2000)

The third area of concern in corruption is that to some extent it promotes organised crimes. “Corruption within law enforcement bodies, which interacts with corrupt officials (within other government departments) and entrepreneurs gaining access to political power and channels for money laundering.” (Levin & Satarov 2000, 116) As a result, this strengthens organised crimes.

Therefore, corrupt activities in general as well as in post communist Russia are associated with many negative political, economic and social consequences. Politically, it makes the credibility of the state decline, as a result, the Russian citizens become increasingly disillusioned with democratic values, stimulating a decline of Russia’s nascent democratic institutions. Economically, it reduces the state’s tax collections and productive efficiency; it also weakens government’s budget management and market competition. A combination of all of these factors lowers Russia’s economic growth rates. Socially, corruption creates Russia’s social poverty, inequality and promotes organised crimes. As a result, Russia’s social tension increases and puts its nascent democracy under threat.

Conclusion

In this essay, I have reviewed the main sources and significance of corruption in post communist Russia. In the source of corruption section, based on my analysis, I have found that the most significant source of corruption in Russia is its high degree of state involvement in the economic activities with poor quality of governance. In the significance section, I have found that corruption in Russia is associated with many negative political, economic and social consequences. As the result of a combination of all of those factors, Russia’s social tension increases and puts its nascent democracy under threat.

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