

High-Level Corruption in Russia

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Vladimir Putin has now ruled Russia as president, prime minister, and president for sixteen years. The current political system in Russia, including the corruption that pervades it, bears Putin's unmistakable imprint.

The current system is based in part on patrimonialism, a system in which the central state is the personal domain of the ruler (or a few rulers), who makes no distinction between public and private property and is seen by his followers as having authority to dispose of all property as he sees fit. In return for their obedience, the followers receive material and political benefits and prestige from the ruler. Patrimonialism has thrived in Russia for hundreds of years, but rarely has it been as entrenched as over the past sixteen years.

High-level corruption² in Russia has also been greatly exacerbated by the lack of meaningful political competition under Putin. Real politics existed in Russia in the 1990s, but it was largely extinguished after Putin rose to power. National elections throughout the Putin era have been largely pro forma, the parliament has been subordinated to the executive's will, political parties (other than the Communists) are mostly non-substantive, national television is firmly back under state control (and offers little more than Putin-friendly fare), and political authority revolves around Putin. The size of the "real selectorate" or "influentials" (to use Bruce Buena de Mesquita's terms) is small—which means that the choice of rulers depends not on the full electorate (as it would in a Western democracy) but on a small group of elites who are beholden to Putin. Among those in this group are Igor Sechin, Vyacheslav Volodin, Yurii Kovalchuk, Sergei Sobyenin, Gennadii Timchenko, Sergei Naryshkin, Sergei Chemezov, Vladimir

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² I define the term "corruption" here as the use of public office to achieve illicit private gain. High-level (or "grand") corruption refers to corruption among the chief policymakers in a system—those who design and are empowered to modify political institutions. High-level corruption in Russia occurs in regions and in localities as well as in the center, but my main focus here is on high-level corruption in the central government.

Kozhin, Sergei Ivanov, Dmitrii Medvedev, Aleksei Miller, Igor Shuvalov, Viktor Myachin, Andrei Fursenko, Sergei Fursenko, and Nikolai Shamalov. The inclusion of these individuals (and others) in the real selectorate is dependent on their strict loyalty to Putin. Putin is the arbiter among competing interests in the group, and he has the ultimate say on who gets what.

High-level corruption takes numerous forms, including diversion of state funds for private use, appropriation of public property and assets for private gain, illicit use of state services for private purposes, failure to declare income (especially income from foreign assets and bank accounts), cronyism, and influence-peddling. Petty corruption is a notorious problem in Russia and often dominates public attention, but high-level corruption accounts for a much greater loss of public resources (estimates vary, but the evidence suggests around 90 percent or more). Diversion of state funds and appropriation of public assets have been especially salient under Putin. Even official spokesmen for the Putin administration have acknowledged that vast quantities of state funds are “lost” (presumably diverted) every year, though this is presented mostly as a phenomenon of carelessness rather than of entrenched high-level corruption. Sergei Stepashin, the head of the Federal Accounting Chamber, told Interfax in November 2012 that a trillion rubles a year is diverted from federal procurements, but estimates by accounting specialists outside the government range much higher—up to 5 trillion rubles a year.

High-level corruption in Russia starts at the very top. Evidence from multiple sources indicates that Putin has amassed a personal fortune of many billions of dollars, most of which is held in foreign bank accounts and front companies operated by highly trusted cronies. Extensive reports in Russia about Putin’s corruption, such as those issued by the late Boris Nemtsov, Vladimir Milov, and Vladimir Ryzhkov, have focused predominantly on the lavish perquisites of office, but much more important are the funds and assets Putin has secretly acquired and hidden from public view. Foreign investigators and scholars have gathered evidence about this phenomenon and made it available, as in Karen Dawisha’s recent book *Putin’s Kleptocracy*, but in Russia itself journalists and analysts have often found it a dangerous topic to pursue. Sergei Kolesnikov provided important details about Putin’s ornate private mansion (dubbed *Dvoretz Putina*, or Putin’s Palace, by the Russian media), but when the Russian version of Wikileaks posted a photograph of the palace in early 2011, the website was temporarily blocked. Journalists and environmentalists who have investigated the location of the mansion have been detained by guards from the Kremlin’s Federal Protection Service, and the whole matter has been obfuscated by the intervention of Putin cronies who supposedly acquired the property. The leeway for journalists was further restricted in the fall of 2015 when the Russian government adopted a law forbidding the disclosure of any information about the private villas of high-ranking government officials.

Disclosures of high-level corruption within Putin's entourage have also been risky for those in Russia who dig them out and publicize them. Alexei Navalny has done excellent work in coming up with detailed evidence about high-level corruption, but the repeated detentions and prosecutions of him on spurious embezzlement and tax evasion charges have undoubtedly caused Russian journalists and political activists to think twice about pursuing this topic in the future. It is telling that Vladimir Markin, the press secretary for the Russian government's powerful Investigative Committee, conspicuously emphasized in 2012 that Navalny's role in exposing high-level corruption (including corruption on the part of Aleksandr Bastrykin, the head of the Investigative Committee) had caused the committee to look thoroughly into Navalny's activities: *"If a person uses all his power to bring attention to himself and, you might say, even teases the authorities – saying, 'Look, I'm so good compared to everyone else.' – then interest in his past and the process of exposing him goes faster."* Markin's comment was clearly meant as a warning to others who might think about following in Navalny's footsteps. That same message had been conveyed earlier by the tragic fate of Sergei Magnitsky, who was arrested, imprisoned, and killed after coming up with evidence of systematic high-level corruption. The security officials responsible for Magnitsky's incarceration and murder were awarded bonuses and promotions.

Moreover, even when journalists and bloggers like Navalny do investigate the issue and come up with damning evidence, they are unable to present it on national television or in most other media outlets. They are relegated to outlets that reach relatively few Russians. Navalny's large following on his blog has been a rare exception (and even with Navalny, public opinion polls revealed that the large majority of Russians know little or nothing about him and his work). Publications like the weekly *New Times*, edited by Yevgenia Albats, do heroic work but reach only a limited (albeit influential) audience.

The ongoing anti-corruption campaign, which began under Medvedev's presidency and has been continued by Putin (albeit with amendments), has been targeted against petty corruption but has also occasionally dealt with high-level corruption, especially starting in the latter half of 2012. However, moves against high-level corruption do not really signal a sincere desire at the top to get rid of the phenomenon. On the contrary, so long as Putin himself remains the chief beneficiary of high-level corruption (and is beyond accountability), the anti-corruption drive serves only instrumental purposes.

This does not mean that the anti-corruption campaign is purely a sham. Some of the measures adopted against petty corruption have been important and indeed commendable, and even occasional moves against higher figures can have significant consequences, such as the resignation in 2013 and 2014 of several members of parliament who did not want to relinquish their assets abroad. But this also means that Putin benefits from the campaign. Not only does it reinforce his role as central arbiter of a patrimonial system and keep all those around him off-guard (because they know they potentially could fall victim to the campaign if they fail to heed Putin's wishes), but it

also conveys the impression to the public that Putin cares deeply about corruption, which was one of the major issues (along with electoral fraud) fueling the mass protests in late 2011 and early 2012.

By pressing ahead with this highly publicized anti-corruption campaign and by speaking frequently about the matter, Putin can make the issue his own and ensure that it is not left exclusively to opposition figures like Navalny and others who seek to expose the phenomenon much more systematically. Even when ousters of senior officials happen chiefly for other reasons (such as the dismissal of Defense Minister Anatoly Serdyukov in November 2012, which may have had more to do with Serdyukov's infidelity to his wife who happened to be the daughter of then-First Deputy Prime Minister Viktor Zubkov – than to egregious corruption in defense procurement), allegations of corruption convey the impression to voters that Putin wants to deal with the matter head-on. High-level figures like Serdyukov are never sent to prison for any meaningful period (Serdyukov was charged in November 2013 with one minor count of “negligence” and was then amnestied by Putin in 2014, and his paramour at the Ministry of Defense, the highly influential property manager, Yevgenia Vasileva, was briefly detained under lenient house arrest and then paroled in August 2015). They usually end up with lucrative new posts in the “private” sector, but their dismissal is intended to convince voters that the president cares about the issue.

Russia's ranking in the Transparency International (TI) rating system improved gradually from 2010 through 2013 (climbing from 154 to 143 to 133 to 127), but it deteriorated again in 2014, going back down to 136 out of 175. Several points should be made about this trend. First, even though the rating is not quite as negative now as it was in 2010, Russia's performance on the TI index remains abysmal, placing it among the most corrupt countries on earth. Second, nearly all of the improvement stems from measures against petty corruption and provisions adopted to comply with the 2011 OECD Anti-Bribery Convention and measures recommended by GRECO (Group of States against Corruption). Combating petty corruption is very important, but (as discussed above) high-level corruption accounts for a much larger share of GDP than does petty corruption. Third, some of the improvement represents the idiosyncratic nature of the TI rating system. Even though the rating system has been less subjective and opaque in recent years than in the past, it is important to bear in mind that other indices, such as the annual corruption scores compiled by Freedom House, do not show any improvement in Russia's performance on corruption during the 2010-2015 period. These other indices take account of the anti-corruption campaign and its impact on petty corruption, but they properly focus on the crucial importance of high-level corruption.

The anti-corruption campaign has been broadly popular in Russia, according to polls conducted by the Levada Center and other organizations, but, interestingly, it has *not* yet caused Russians to think that high-level corruption is diminishing. On the contrary, the vast majority of Russians (roughly 85 percent) believe that “stealing and corruption

within the current political leadership” are either growing or not declining and are worse than when Putin first took office. Nearly 90 percent of Russians believe that corruption at the top has been “high” or “very high” under Putin, and only 3 percent (according to a Levada Center poll in July 2015) believe that corruption is declining. Even though most Russians, when discussing the issue, are at least as concerned about petty corruption, they see high-level corruption as a pervasive (indeed almost normal) phenomenon. The Levada Center’s monthly and annual opinion surveys reveal that more than 80 percent of Russians believe that “top officials and members of the government” enrich themselves by failing to “declare all their income sources” and by “secretly maintaining bank accounts and property abroad.” Most Russians also believe that the bulk of anti-corruption measures (including a ban on foreign bank accounts for public officials) are weakened by huge loopholes (for example, assets can be temporarily transferred to close relatives, thus evading all scrutiny).

Nonetheless, public perceptions of high-level corruption have not had a damaging effect on Putin. Putin’s popularity ratings have remained extremely high since early 2014 (reaching nearly 90 percent in October 2015), despite all the revelations about corruption at the top and despite the growing economic crisis in Russia that is largely attributable to his own actions. Putin is the one who banned Western food shipments to Russia, yet the vast majority of Russians blame Western countries, not Putin, for the ban. Except in late 2011 and early 2012, revelations of high-level corruption seem to have had no connection to public perceptions of Putin and his regime. According to Levada Center polling, the percentage of Russians who believe their country is “moving in the right direction” has risen precipitously since the annexation of Crimea, going from less than 30 percent in 2013 to nearly 65 percent in 2015. The percentage of Russians who “fully trust” Putin has risen to 80 percent in 2015, compared to only 55 percent in 2013. Ultimately, efforts to curb high-level corruption in Russia will require an extraordinary degree of public “demand” for steps to eliminate the problem. The “supply” of measures against high-level corruption, especially against corruption at the very top, is bound to be minuscule in the absence of vigorous public demand akin to the protests of late 2011.

If Putin retains broad popular support and continues to be viewed favorably by the large majority of Russians (not least by presenting himself as a valiant fighter against corruption), it is hard to see how patrimonialism in Russia can be eroded during his tenure or how the egregious corruption at top levels can be diminished. But if public opinion starts to turn sharply against him and key elites begin to defect to the opposition in response to changing public sentiment, there may be a chance to erode or even dislodge the patrimonial system and replace it with a more open and accountable polity. At a time of deepening problems in the Russian economy and a prolonged decline in living standards, this scenario cannot be ruled out.

One thing that seems clear is that Putin will not volunteer to change the system himself. He is like the “stationary bandit” depicted by Mancur Olson, with limited time horizons.³ Putin is well aware that if he establishes effective mechanisms of high-level public accountability, he himself might become a victim of them. Indeed, many opposition figures in Russia cite this factor as a reason to expect that Putin will never relinquish supreme executive authority voluntarily, for fear that he might be held to account under a successor. Unlike Boris Yeltsin, who had someone (Putin) to whom he could transfer power and receive guarantees of immunity from prosecution, Putin has no such successor on the horizon. That circumstance does not bode well for an end to high-level corruption. Barring a swift and far-reaching turnaround in public sentiment, a system of high-level corruption extending from Putin downward seems likely to continue for a long time to come.

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³ Olson, a renowned economist, published essays in the 1990s that distinguished between “roving bandits” and “stationary bandits.” When anarchy prevails, roving bandits steal as much as they can and make no effort to benefit the rest of society, but, over time, roving bandits gradually come to want the broader socioeconomic system to function well so that they will have more to steal. Hence, they evolve into stationary bandits (i.e., autocrats) who levy taxes on the population and, in return, provide public goods, especially public security. For the basic argument, see Mancur Olson, “Dictatorship, Democracy, and Development,” *The American Political Science Review*, Vol. 87, No. 3 (September 1993), pp. 567-576.