

Causes and Consequences of Corruption in Putin's Russia

PONARS Policy Memo No. 430

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December 2006

In September 2006, Russian President Vladimir Putin declared that an inability to make much progress in the battle against corruption was one of his administration's greatest failures. In fact, rising corruption has been a direct consequence of Putin's policies to strengthen the state and to crack down on many elements of Russia's civil society. The results of this expanding corruption will be felt in the upcoming 2007-2008 parliamentary and presidential election cycle and in many other spheres of Russian public life.

The main organizations that gauge corruption cross-nationally, such as Transparency International, the World Bank, and Freedom House, generally agree that corruption in Russia seemed to decline in the early years of Putin's presidency but has increased over the last few years. While the overall number of bribes may be shrinking, the size of the bribes is growing. Russia's "bribe tax" recently shrunk from 1.4 percent of revenue to 1.1 percent, according to the World Bank, but the amount of bribes has grown as much as 50 percent in absolute terms because of the growing size of Russia's economy. While one can debate the validity of various organizations' methodologies, the trend lines are clear.

Bureaucracy and Corruption in Russia

The causes of corruption in Russia are no mystery. Transparency International recently conducted surveys examining the level of corruption across 40 Russian regions. The data demonstrate a strong correlation between a region's level of corruption and the

number of bureaucrats in the region. The absolute size of the state matters in facilitating corruption because the more bureaucrats there are, the more opportunities there are for corrupt transactions to take place. The negative impact of the bureaucrats greatly outweighs the positive effect of economic development in the regions, according to this data.

Russia's most corrupt areas are its major cities, where a heavy concentration of bureaucrats exists. Even though these urban centers enjoy a relatively high gross national product (GNP) per capita, the impact of the bureaucrats again heavily outweighs the beneficial effects provided by their more advanced economies.

Putin's focus on increasing the capacities of the Russian state is responsible for the expanding bureaucracy. According to the state statistical service, the number of bureaucrats at all levels of government in Russia grew by 143,500 in 2005 to a total of 1,462,000, or approximately one bureaucrat per 100 residents. Bureaucrats as a share of the overall workforce have increased from 4.55 percent in 2000 to an estimated 4.92 percent in 2005. In the draft 2007 Russian budget, the amount of money spent supporting public servants is set to rise 50 percent to 821 billion rubles.

Public sector salaries are rising as well. Regional-level bureaucrats are currently the best paid in Russia, earning on average 19,240 rubles per month. Federal bureaucrats working in regional offices make 11,430, while the average salary for a Russian worker is 9,876.

In Russia, as in other countries with high levels of corruption, the question of compensation levels for bureaucrats prompts considerable debate. Some argue that the best way to reduce corruption is to raise bureaucrats' salaries to a level where they will not be tempted to take bribes. Raising public sector salaries, however, is not a panacea for fighting corruption. In most cases, higher salaries would not provide enough income to replace what bureaucrats are receiving illegally. Moreover, these raises would have to be targeted to essentially honest bureaucrats who would not accept bribes if they were able to make a minimally acceptable living, an unrealistic scenario.

Russia has tried this approach with little effect so far. The salaries of Russian judges, for example, have dramatically increased, while the World Bank has detected increased levels of bribery in this branch of government. In general, the level of salaries seems to be up overall for Russia's public servants while the level of corruption is also on the rise.

Moreover, the current bureaucracy operates without any checks on its power. In the past, competition existed between the conventional bureaucracy and that of the law enforcement agencies, according to Georgy Satarov, a former political adviser to Boris Yeltsin. With the growing presence of security service officers throughout the bureaucracy, these divisions are gone.

Just as there is no longer an internal system of checks on the administration, there is no external balance either. Thanks to the Kremlin's crackdown on the media, political party reforms, campaign against nongovernmental organizations, and centralization of political power, social groups have few levers to control the actions of state officials. The lack of oversight creates extensive grounds for corruption.

Consequences of Corruption in Russia

In the current Russian context, corruption is likely to cause a variety of negative outcomes affecting the country's political and economic systems.

2007-2008 Elections

First, corruption may be the defining issue of the 2007 parliamentary and 2008 presidential elections. Given the current level of corruption in Russia, incumbents will not want to leave office for fear of losing access to the power that provides their wealth and, possibly, of facing prosecution. Once in power, a new group would be eager to take over the property that Putin's group now controls. Already there is an increasingly visible division within the elite, with numerous battles taking place between different factions of the law enforcement community.

Such a battle is also apparent in the formation of political parties. Russia's bureaucrats have essentially established their own political party in the form of United Russia, the current party of power. This group has no ideological foundation and is united on the basis of preserving the power of current officeholders. Even here, however, there are splits, as the Kremlin has increasingly given support to an alternative party of power in the form of Sergei Mironov's Just Russia.

The political opposition, which includes the Union of Right-Wing Forces and the Communist Party of the Russian Federation, has already made clear that it will make anti-corruption its main campaign slogan in the elections. This theme is the most powerful tool that the Kremlin's opponents have in their struggle against the incumbents. United Russia also plans to emphasize the battle against corruption, though it is not clear how much traction its members will gain campaigning against their own abuses.

Ultimately, the parties' use of these slogans will have little to do with stimulating a real campaign against corruption. Each side will deploy claims of corruption against the other only as a way of gaining electoral support.

Media

Putin's systematic crackdown on the Russian media is consistent with efforts on the part of his administration to cover up corruption among public servants. Russia's three main television networks are now either controlled directly by the state or by Gazprom, the majority of which is owned by the state. At the same time, there has been a crackdown on the print media, with Kremlin-friendly companies taking over the most interesting non-state-controlled publications. There is less direct supervision of the regional media and the internet, but the direction of Kremlin policy is clear, even if it is still uncertain how far political authorities will go in attempting to staunch the flow of information.

To some degree, Russia's top leadership must be careful in how it handles the remaining independent media. To rule effectively, the leaders need to have feedback about the impact of their policies in Russia's regions. Without this feedback, they could make unpopular mistakes that could fuel the rise of a serious opposition.

Center-Periphery Relations

Anti-corruption has been one of the main tools the Kremlin has used in its battle against Russia's regional leaders. Now, for the first time, one of Russia's governors is sitting in jail, and several others are facing charges of abuse of office. As the elections near, however, the Kremlin will most likely retreat from these tactics. It will need the governors' political machines to organize regional voters in favor of Kremlin-backed candidates. Without the governors' support, this effort will not succeed. As in other spheres, the Kremlin's attack on corruption among the regional elite is a political tool rather than a real anti-corruption campaign.

State-Business Relations

The field for corrupt practices is increasing in Russia's crucial energy sector as the state takes over more assets. Beyond purchasing a majority stake in Gazprom, the state has transferred the assets of the oil company Yukos to the state-controlled Rosneft. The state also enjoys monopoly ownership of Russia's oil pipelines through Transneft. Kremlin officials sit on the boards of key energy companies, and Russia is exerting increasing pressure on foreign firms active in the energy sector.

Banking has long been one of the most corrupt sectors of the economy. The state has made little progress in reforming Russia's financial institutions, and the formal ownership and activities of many Russian banks remains opaque. The assassination in September 2006 of Andrei Kozlov, Russia's top bank regulator, will further slow efforts to clean up the system. Kozlov guided work to shut down banks suspected of money laundering and other abuses.

Russia's businessmen have not sought to address the problem. A recent World Bank survey suggests that 20 percent of Russian businesses do not see anything wrong with paying bribes. Research among business people in St. Petersburg demonstrates that they would generally prefer to pay a bribe than engage in efforts to reform the overall system. If business groups do not take action against corruption in Russia, it is hard to see who will.

Organized Crime and Terrorism

Corruption is a necessary facilitator for Russia's extensive organized crime and terrorist networks. Corruption within the law enforcement agencies makes it possible for criminal and terror groups to operate on Russian territory, while corruption within the customs service and border guard facilitates the transport of illicit goods across Russian borders. It will be impossible for Russia to address these problems without first reducing the amount of corruption in state agencies.

One clear indicator of the link between corruption and organized crime is a spate of assassinations of deputy mayors responsible for managing municipal property in Russian cities. These officials become targets since they control access to the city's best retail space. They risk paying with their life if their actions run counter to the interests of one or another criminal group.

Addressing Corruption

Four components would define an effective anti-corruption policy in Russia. The first would be to scale back and reform the current bureaucracy. The second would be to allow society to hold its government accountable. Typically, this would include a free press, an active and independent civil society, and competitive elections. A third feature of an anti-corruption policy would be the decentralization of power from the federal level to regional and local levels, providing for a system of checks and balances between the three levels of government. Finally, Russia should try to address inequality between Moscow and St. Petersburg and the rest of the country. Greater economic development in the regions will provide a strong foundation for reducing corruption.

Unfortunately, the trend lines in all these areas are moving in the wrong direction. The bureaucracy is growing, the Russian state is increasingly less accountable, power is becoming more centralized, and the gap between center and regions is widening. U.S. policymakers and observers should continue pointing out what is happening in Russia in order to help turn Russia's fight against corruption from political slogans into realistic policy.