

# **Pre-transitional and Transitional Roots of Corruption in Russia**

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## Introduction

Corruption in Russia experiences nowadays the process of institutionalization, the establishing of relatively changeless set of informal practices, rules and even informal organizations within official frame. The process of institutionalization of corruptive practices are supplemented by general de-formalization of rules in economic life - a continuous transformation process when official economic institutions are largely substituted with informal ones. Formal and informal rules mutually complete and compete with each other creating a specific institutional framework for business activities and

Before speaking about the roots of corruption it is necessary to look at the shadow economy (or informal economy) because corruption is one of its main components. Corruption in Russia didn't appear in the post-soviet period. Indeed, in the Soviet Union corruption was inalienable characteristic of the Soviet social-economic model of society and the main mechanism of the "economy of favors" – the predecessor of contemporary shadow economy in Russia..

The purpose of this essay is to consider three questions:

1. Which features of corruption have been inherited from pre-transitional from the soviet era of informal economy remain after reforms?
2. How corruption has been changed during the period of reforms as to compare with pre-reform period?
3. How the scope of corruption in post-socialist period was influenced by privatization processes ?

### 1. The "economy of favors" as a main pre-transitional factor of corruption

The economy of favors was not what is usually understood, especially in the West by the term "black market", nor was it merely a system of tax evasion. Like another side of the coin, the economy of favors was another side of command-planned economy without which the later couldn't function at all. Actually the Soviet economy had two kinds of transactions within it: the official dealings, that were announced and recorded, and those of the second economy which were not. Only a small part of resources and funds was distributed according to centrally-planned criteria, the distribution of the biggest part was made informally, by breaking innumerable laws, rules, directives, plans etc. on the basis of interpersonal relations which are known as specific 'blat' relations (which means approximately distribution by acquaintance)<sup>1</sup>.

The soviet informal economy was a product of special kind of the state that was created during the soviet period– a "state of nomenclature socialism". Nomenclature – is a specific social layer created during socialism, that occupied special place in society, had special own (individual) interests (including economic interests) different from those of the society. Formally it was appealed to implement the public will, but actually the "nomenclature machine" served for its own purposes.

*Main features of corruption during the soviet times*

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<sup>1</sup> This led to the most interesting phenomena in the history of the USSR – "soviet statistics", the creation of documents which were absolutely irrelevant to anything real except the official record, the none-existent output.

Corruption during the soviet times has, according to some researchers, a *monopolistic model* (Shleifer & Vishny) according to which providing of different kinds of resources is concentrated in one hands and under a single control. What did that mean in terms of characteristic features of corruption?

- *fear to be punished* was important feature of a soviet bureaucrat. Though demonstrative court examinations on corruptionists were arranged from time to time, it is notable that the officials were afraid of not only criminal punishment but rather of administrative (sometimes informal) punishment that is to be excluded from the nomenclature circle. All bureaucrats were well aware that the *System* is able to annihilate each of them. Belonging to a particular level of soviet bureaucracy provided lots of advantages, that were not available for common people. Some researchers consider the phenomenon of nomenclature as a factor that restrained to some degree the further development of corruption during the soviet times.
- *"gangster socialism"* or the merge of bureaucratic and criminal structures. This phenomenon appeared during Brezhev epoch and is considered by researchers of that period as a "classical" socialist mafia.
- *"bureaucratic code"* - the existence of a conventional set of rules regulating bribes giving and taking. The bribes and other material and none-material wealth were supposed to be provided in accordance to strictly maintained hierarchical schema in which every bureaucrat received gains according to his/her status in the system.

## 2. Corruption in transitional period.

The destruction of formal bureaucratic system hasn't led to the destruction of the system of informal authoritative interrelations. Moreover under conditions of weak formal regulations informal mechanisms have become even more important. At the same time there is an evidence of shifting from so-called "monopolistic model of corruption" towards "deregulated model" according to which bureaucratic structures perform relatively independently, and this shift is related to the increase of corruption.

*What remains the same?*

The all-penetrating character remains to be the main characteristic feature of corruption in Russia. According to this the mentality of the population considering informal interactions as a most effective mechanism of "getting things done".

The degree of *state control* over business and other spheres remain the same. Fusion of economy and authority immanent to totalitarian regimes hasn't been overcome. The "division of labour between authoritative structures which are supposed to create favorable conditions for business on the one hand and free economic agents on the other hand hasn't been developed. Administrative structures in Russia (especially at the regional level) still remain playing in economic field according their own rules.

The *mentality* of bureaucrats and "*government ethics*" has remained the same. Like during the soviet times bureaucrats distributed resources in post soviet times they use the same principles to distribute money (finances).

*What is different?*

The structure of bureaucratic relationships has undergone considerable changes during the period of reforms, and first of all, considerable redistribution of authority between governing institutes and between their hierarchical levels (e.g., between federal and local authorities).

Former soviet “bureaucratic conventions” have been eroded prescribing which official, how much can take and for what kind of “informal services”. The absence of this kind of conventions might cause the elements of voluntarism which is “more unfavorable for businessmen than extortion itself” ( Radaev, 1998). There is an evidence that the new “bureaucratic codex” is being formed and that some features of this new codex are different from those in the early 90-s. (For instance, if at the very beginning of reforms during the spontaneous privatization the prevailed pattern of bureaucrats’ corruptive behavior was “to catch and to run” now the increasing number of officials are oriented towards long-term “collaboration” and “take care” of business.)

Although the mentality of bureaucrats remain generally the same, they begin to consider bribes as a “normal commission” for informal services – though “shadow” but justified way of increasing of their “shamefully low” salaries.

The important difference of contemporary corruption from the soviet times is that given all social “costs” of corruption it didn’t affect the “adoption of systemic goals”, on decision making processes on the top level of state governance, while contemporary corruption influences these “systemic decisions”.

The role of money in corruption deals has been changed. In the economy of deficit money didn’t play such an important role in everyday corruption. Different services and deficit commodities could be used as bribes. Today money begin to play more important role (though in long-term networking interrelations between officials and businessmen have more complicated character and are not confined by giving bribes).

The difference between nowadays situation from that of the soviet times is also provided by the fast changes in political and bureaucratic machine that cause situation of uncertainty for the officials, (their uncertainty “in tomorrow”). Actually during the soviet times an official would join the nomenclature bureaucracy for the rest of his/her life, and he was confident that in case of following informal rules of game, he would have stable and successful future. This confidence is lack for today’s officials.

### **3. Privatization as a post-transitional root of corruption**

Usually privatization processes in Russia are subdivided into the following stages:

1. *Spontaneous privatization of public property* that was started in late 1980s and early 1990s, as managers of some state-owned enterprises were given control over their assets (via lease, creation of structural business units, establishment of various associations, etc.). Since the system of state control over enterprises collapsed, on the one hand, and there was no legal base for private property, on the other hand, the control was seized and maintained by force that involving criminal structures and corrupt state and party officials traditionally responsible for the control over enterprises. There appeared first foreign (and pseudo-foreign) pseudo-investors, who aimed only to control the financial flows.
2. *Mass privatization*, that was started in 1991 when the RSFSR Supreme Council approved first laws on privatization in Russia. The first privatization program (1992) was the key

instrument for the subsequent mass privatization carried out in 1992 through 1994, at the same time it was a compromise between cash (for active part of the populace) and free privatization (vouchers for all and preferential schemes for employees), on the one hand, and, on the other hand, the model of «privatization for all» and of distribution of property among enterprises' employees.

3. Some observers associate the beginning of the third stage of privatization with the term “*individual project*.” The emphasis was put (even in the name itself) not on enterprises but on the property (the state’s share of the property). According to Decision “On Procedures Governing the Realization of Individual Projects for Privatization of Federal Property” adopted in 1997 individual projects for privatizing federal property are complex measures aimed to privatize federal property being of special importance for the country at large, region, or industry.

Today from the point of view of further systemic transformations, privatization is considered as becoming less important than the problem of corporate governance and of restructuring of privatized enterprises.

According to experts’ estimations privatization in Russia had the following specific features:

- Unprecedented scale of privatization (as considered for the terms and for the number of privatized enterprises)
- The absence of private sector in Russian economy over a long period of time before privatization, that led to absence of restitution
- Multiplicity of methods of privatization, the division of privatized objects into “small” and “big” ones and using different methods of privatization for each group (which led to division of privatization processes into “small privatization” and “big privatization”)
- Considerable privileges for employees of enterprises (that were caused rather by political considerations than by economic reasons)
- Formal character of privatization (very often the changes in the ownership were not accompanied by changes in real changes in property relations). Besides almost everywhere the pre-privatization preparation didn’t touch real internal organizational problems.
- Haste in privatization accomplishing, discrepancies and incompleteness of related legislation
- Shift from initial concept of “creating of a wide layer of private owners” towards orientation on “strategic investors”.
- Limitation of participation of foreign investors in privatization process (that led in fact to wide use of false persons for participation of foreign capital)
- Considerable underestimation of property value of enterprises, especially of the big ones.
- Inaccessibility for investors of formally opened information regarding privatization, (i.e., terms, prices, size, etc.) concealed by enterprises’ management. Monopoly on information. Top managers of state enterprises actually perform as the owners of these enterprises.
- Unwillingness of enterprises’ personnel to privatize their enterprises, unreadiness of enterprises’ management for privatization.

In the assessments of the results of privatization two different opinions can be distinguished in public and political discourse. According to one of them privatization was generally successful (the main argument for it is the increasing cost of shares of privatized enterprises).

According to another opinion the privatization hasn't reach the main goals, first of all the restructuring of the enterprises and mobilization of investments, the creation of a layer of private owners (the basis of future middle class), the lack of economic motives and interests, adequate to market economy, etc. Very often experts speak about successful "small privatization" and failed "big privatization". Not deepen into the problem of assessment of the results of privatization, one should however mention that all experts agree upon the fact that privatization conducted in Russia in the 90-s was closely related to corruption.

#### *Corruption as a factor of ineffectiveness of privatization*

First of all the very failure of privatization is explained by the corruptive character of post-soviet bureaucracy that managed to use the gaps in legislation for manipulations with privatization processes. The direct distribution forced out fair competition. The winners in privatization were those who manage to find approach to powerful officials having access to privatized objects. Therefore fictitious owners have come to enterprises instead of effective managers.

Incompleteness and discrepancies in legislation related to privatization had led to situations when the government used the measures of "prompt respond" in order to "put everything in order" instead of creating consistent legislative and normative base of privatization. The explicit example of that is introduction of special procedures of privatization for some particular industrial branches or even some particular enterprises.

#### *Privatization as a factor of increasing corruption*

Privatization and the mechanisms and forms of its implementation caused the new wave of corruption. One of the most considerable causes of flourishing corruption is considered the possibility provided by privatization to get for some "recompense" (or just bribe) the state property in private ownership.

Privatization provided possibility for further speculations with the property. Under the conditions of practically free distribution of state property it appeared to be profitable to obtain property just for its further resale for real price (more profitable than to use it for production purposes).

The compromise between cash and free privatization provided the source of the flaws in privatization model, such as the evaluation of property according to the residual method; disregard of the restructuring (attraction of investment) of enterprises prior and in the course of technical privatization. According to the opinion of S. Stepashin (the chair of Accounting Chamber (Счетная палата ?) of Russia) 90% of Russian enterprises were privatized with the infringements of Russian legislation. However the revision of the results of privatization is impossible since it might undermine Russian economy.

#### *"Privatization of the authority" as result of privatization process in Russia*

Another outcome of privatization in Russia can be called as "privatization of authority". In Russia privatization embraced the state itself – the rights of governing of state resources have passed to "private ownership" hands. The rights to gather taxes or to head certain agencies, the rights to "print money" and to rule the courts, etc.

While assessing the role of privatization we should also take into consideration the opinion of some experts that slow pace of Russian reforms are caused not by ineffective and radical character of privatization, but rather by the absence of accompanied reforms regarding the economy in general, that are supposed to supplement privatization process and without which privatization wouldn't be effective as well as transformation in general.

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