

CORRUPTION AND THE RUSSIAN TRANSITION

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Introduction

This paper surveys the state of the debate over the causes, character and consequences of corruption in Russia. The main argument is that while there is broad agreement over these questions, there are few credible suggestions to explain how Russia will escape from its current impasse.

Corruption has not traditionally been a subject that has attracted the attention of political scientists. The study of corruption has largely been the province of investigative reporters: from the very beginning, in the U.S., it was "muckraking" journalists who exposed the phenomenon. In the literature on the politics of transition in socialist countries, it was journalists who first drew attention to the prominent role of corruption.¹ And among academic disciplines, it is anthropology, with its analysis of reciprocal gift-giving and patronage networks, that is most comfortable with the analysis of corruption.²

Political scientists and economists traditionally tended to treat corruption as a marginal phenomenon, a regrettable example of deviant behavior that did not seriously affect one's analysis of the political/economic system.³ However, it has become increasingly clear that

in the transition economies (as in most of the developing world) the issue of corruption had become impossible to ignore. Corrupt practices were not merely parasitical on an otherwise healthy body politic and market economy: to a worrying degree, corruption had become a central, structural feature of the logic of political and economic behavior.

By 1997 authorities from the World Bank to Jeffrey Sachs were for the first time acknowledging that a successful transition to capitalism required that more attention be directed towards promoting the rule of law.⁴ The initial operating assumption back in 1989-92 was that liberalization would create the incentives for profit-seeking behavior. This would lead to the emergence of new social actors (entrepreneurs, workers and consumers) who would have a vested interest in the new market economy. These groups would realize that it is in their interest to help create the social institutions necessary to the smooth functioning of a market economy—clearly defined property rights, enforceable contracts, fair and transparent government regulation. The introduction of democracy would give them the chance to translate their demand for market institutions into public policy. The main political threat to market transition was seen as lying in the desire of bureaucrats and some groups of workers to try to turn the clock back to central planning. Even as late as 1996 Boris Yeltsin ran an election campaign by painting communism, and not corruption, as the main threat to social progress in Russia—and he received the unanimous support of Western governments and international agencies.

¹ For journalists writing on Russian corruption, see Stephen Handleman, *Comrade Criminal: Russia's New Mafiya* (New Haven, CT: Yale University Press, 1995); David Kotz and Fred Weir, *Revolution From Above* (London: Routledge, 1997).

² The leading investigator of the scandal surrounding the USAID-funded work in Moscow of the Harvard Institute for International Development is anthropologist Janine R. Wedel. See her Janine Wedel, "Cliques and Clans and Aid to Russia," *Transitions*, July 1997.

³ For samples of serious work on the issue, see Arnold Heidenheimer et al (eds.), *Political Corruption: A Handbook* (New Brunswick, NJ: Transaction, 1989); John Girling, *Corruption, Capitalism and Democracy* (New York: Routledge,

1997); Robin Theobald, *Corruption, Development and Underdevelopment* (Durham, NC: Duke University Press, 1990).

⁴ Jeffrey D. Sachs and Katarina Pistor (eds.), *The Rule of Law and Economic Reform in Russia* (Boulder, Col: Westview Press, 1997); World Bank 1997 World Development Report.

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Alas, something went wrong in Russia and most of the other Soviet successor states. Liberalization led to short-run profiteering rather than long-run profit seeking. Few social actors emerged with a commitment to institution-building. As of August 1998, the official position of the IMF, World Bank and U.S. government is that the market reform pursued (fitfully) by Russia since 1991 was and still is the only feasible alternative for Russia. They now concede, however, that market liberalization should have been accompanied by more determined efforts at institution-building to promote the rule of law.

Political scientists were perhaps even slower to adapt to the souring of the Russian transition than were economists. Corruption still tends to be seen as something that should be studied by legal scholars, a blot on the body politic that belongs in the category of "crime and social problems." Despite a growing recognition that corruption has deeply penetrated Russian political and economic elites, few political scientists have tried to systematically analyze the phenomena of organized crime, "clan politics" and their implications for the Russian political system.

The purpose of this paper is therefore twofold. First, to alert political scientists to the dimensions of the corruption issue in Russia and the challenge it poses to our conventional understanding of the democratic transition. Second, the goal is to question the assumptions behind the way that economists are conceptualizing the problem of corruption and to argue that political science has a specific role to play.

What Is Corruption?

It is clear that the contemporary Russian economy, from the corner store up to the federal budget, is far removed from the "perfect competition" theory to be found in economics textbooks. This deviation from orthodox models of how an economy operates is often explained by reference to the spread of "corruption," conventionally defined as the abuse of public office for private gain.

This definition has several problematic aspects. First, it has a strong moral connotation: the behavior described as "corruption" is prejudged as necessarily "bad." Second, it presupposes that one can readily distinguish between two spheres: a public sector on one hand and private interests on the other. Once this is assumed, the battle against corruption is half-won: the authorities simply have to strengthen the barrier between public and private. In Russia, however, and in many other societies, the separation between public and

private is not clear-cut, and must be explained and analyzed, not assumed.

Hence we will proceed by describing the behavior we wish to investigate as "rule evasion" rather than corruption. "Rule evasion" is a less pejorative term than corruption, and is open to the interpretation that such behavior can be individually rational and even socially functional. It is also a broader term than corruption, encompassing all behavior involving deviation from laws and formal procedures.

Second, using the term "corruption" implies that the behavior is confined to a small deviant section of society: parasites on an otherwise healthy social organism. Rule-evasion may be more pervasive than is implied by the term corruption. Indeed, it may be endemic to the core functions of the political organism and not merely a feature of its "parasitic" and dysfunctional elements.

The difference between corruption and rule evasion is more than mere semantics. Officials and businessmen may be behaving rationally and often responsibly by engaging in rule evasion in an situation far removed from a mature market economy, characterized by legal nihilism; inadequate liberalization; intense politicization of economic decision-making; deficient institutional infrastructure; prevalence of barter trade; widespread arrears in meeting contractual and tax obligations, and so forth.

How Bad Is Corruption?

Some commentators are prepared to argue that corruption is not necessarily a barrier to social progress. They note that corruption to a degree is present in all societies, and that it can serve some useful social functions.

In economic terms, the spread of corruption can undermine traditional, inefficient patterns of economic organization (communist bureaucracies, in the Russian case), clearing the field for new capitalist forms. Some would argue that it can encourage the spread of profit-seeking, market-oriented behavior.⁵ Bribery of state officials, for example, may enable entrepreneurs to get around archaic rules and regulations hostile to the development of markets and hence economic prosper-

⁵ For example, "the ability to evade rules helps prevent increased government regulation and, in some cases, leads to a rationalization of laws." Jim Leitzel, "Lessons of the Russian economic transition," *Problems of Post-Communism* (January-February 1997), pp. 49-55, p. 55.

ity.⁶ Organized crime may provide entrepreneurs with personal security and contract enforcement which the public judicial system is too weak to provide.⁷ Hence in countries such as Indonesia or China over the past decade we have seen very high levels of corruption coinciding with rapid rates of economic growth. The living standard of the general population in those countries was also rising, although at a slower pace than that of the economic elite.

In political terms, corruption may be a messy but necessary lubricant, forging political alliances between otherwise antagonistic groups. The creation of patronage networks can bring a sense of order and hierarchy out of incipient social anarchy. The pyramid of favors and obligations may reach down deep into society, giving even ordinary people a sense of belonging and a stake in the future. This is the argument made in seeking to explain the persistence for more than a century of organized crime in Sicily, for example.⁸ Thus there may be a tradeoff between the social stability which corruption can provide and the greater economic efficiency which would flow from more open market competition.

The U.S. itself went through a "robber baron" phase at the end of the nineteenth century. A concentration of economic power in the hands of a few monopolists seemed to be necessary to create national industries of railways, steel and oil. Meanwhile, in the cities the millions of new immigrants were absorbed into the democratic process through Tammany-hall style machine politics. However, this concentration of economic and political power in the U.S. soon produced its own antithesis. The democratic process threw up the progressive movement, which waged a successful war on corruption and broke up the trusts. The analogy implies that corruption is just a phase, perhaps even a necessary phase through which the national organism will pass on its way to political and economic maturity.

However, a correlation of levels of perceived corruption in various nations with their economic growth performance suggests that in most countries

corruption is inimical to economic growth.⁹ Corruption may accompany growth driven by public sector spending, but much of this may be pork-barrel driven "roads to nowhere" that do not contribute to social welfare.¹⁰ Correlating the absolute level of GDP and perceived corruption also suggests that, generally speaking, the richer the country, the lower the level of corruption. With the Asian meltdown over the past year, the Indonesian model of economic growth plus rising social inequality does not look so attractive.

In the Russian case, the argument that corruption may be the price you have to pay for economic growth is something of a moot point, since the economy shrank for seven straight years. After stabilizing in 1997 (GDP grew by an anemic 0.8% that year), the economic contraction resumed in 1998. Russian corruption has not been parasitical on a healthy, growing economy. Rather, it has flourished amid the decaying remains of the corpse of the Soviet economy.

The Hierarchy of Rule-evading Behavior

In looking at the role of corruption, it is important to recognize that there is a hierarchy of rule-evading behavior of varying types. Talk of corruption in Russia is often conflated with the role of organized crime: that is, criminal gangs relying upon violence or the threat of violence.¹¹ Organized crime is best viewed as a subset of rule evasion: the two phenomena are related, but distinct. Rule evasion in Russia is a widespread and entrenched phenomenon that cannot be reduced to the antics of Mafia gangs.

Let us begin at the level of the individual. Casual observation reveals that most Russians have no compunction about evading taxes or other government regulations (such as those forbidding citizens from having bank accounts abroad). On the contrary, even professionals who should be at the forefront of the struggle to introduce legal norms—journalists and lawyers—often freely explain to foreign visitors the

⁶ Nathaniel Leff, "Economic development through bureaucratic corruption," *American Behavioral Scientist*, vol. 8, no. 3 (November 1964).

⁷ Federico Varese, "Is Sicily the future of Russia?" *Archives Europeenes de Sociologie*, vol. 35, no. 2.

⁸ Diego Gambetta, *The Sicilian Mafia: the Business of Private Protection* (Cambridge: Harvard University Press, 1993).

⁹ Paulo Mauro, "Corruption and growth," *Quarterly Journal of Economics*, no. 110 (1995).

¹⁰ Vito Tanzi and Hamid Davoodi, "Corruption, public investment and growth," IMF Working Paper 97/139 (1997). Japan will spend \$278 billion on public works this year: more than the Pentagon's annual budget. Sandra Sugawara, "Japanese construction trade built on cronyism," *Washington Post*, 31 January 1998.

¹¹ On organized crime see the special issue of *Demokratizatsiya*, vol. 2, no. 3 (Summer 1994); Tanya Frisby, "The rise of organized crime in Russia," *Europe/Asia Studies*, vol. 50, no. 1 (January 1998).

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various ways in which their employer avoids paying taxes on their salaries. (A favorite technique is paying them with insurance payments or bank loans as a way of avoiding personal income tax.). As a result of such strategies, income from employment (wages and salaries) has shrunk to about 45% of total reported income. It is only a slight exaggeration to say that when confronted with a rule, Russians' first reaction is to look for a way around it.

This pattern has a parallel in moral reasoning.¹² The Soviet-era adage "he who does not steal from the state, steals from his own family" still has some resonance. Moral behavior in Russia is judged primarily in terms of honest treatment of family and friends, rather than conformity with more abstract rules such as public laws. The view that morality resides in the private and not the public sphere crystallized in the Soviet era, when involvement in public life (Communist Party membership, etc.) was seen by most people as requiring conformity to an amoral and false public rhetoric. Soviet man inhabited a "gray zone" where behavior was regulated by custom, but not by law.¹³ This polarization of private morality and public deceit is obviously inimical to the development of any sort of public order, but especially one based on notions of civil society and a voluntary compact between rulers and ruled. The introduction of competitive elections since 1991 has not apparently been sufficient to promote a new sense of respect for public institutions.

Moving up from individual behavior to the level of small businesses, one finds private entrepreneurs trapped between rapacious state tax and regulatory officials, on one side, and equally rapacious criminal gangs, on the other. A great deal of commerce takes place in the "shadow economy," not reported to official agencies in a bid to avoid Russia's tough and often arbitrary tax laws. Enterprises often pay bribes to officials in order to stay in business. A World Bank survey of 50 small businessmen found the proportion admitting to paying bribes to various categories of official ranged from 21% (tax inspectors) to 40-50% (for export/import licenses), to 100% (for phone installation).¹⁴ At the same time most owners of stores and service outlets have to pay protection money (either

to criminal gangs, to criminal-like security services, or to the police) in order to stay in business. This practice, which anecdotal evidence suggests is pervasive, has been a severe constraint on the development of small businesses in Russia. The payments range from 10 to 50 percent of overall turnover, and this helps explain why everything from beer to toothpaste tends to be more expensive in Russia than, say, Poland (which also has its own problems with organized crime).

Moving further up the economic hierarchy, at the level of the enterprise it is clear that many transactions depend for their success on the firm's position in local elite networks. This is true whether it is a question of renting premises, shipping goods on the railway, or avoiding paying wages and taxes. Despite protestations that Russia has introduced a market economy since 1991, barter trade still accounts for about 40% of industrial turnover (and has increased since 1992). Barter involves both the physical exchange of commodities, and the use of various types of non-monetary financial instruments (bills of exchange, tax waivers, etc.). Such barter transactions are very difficult for the tax authorities to monitor: that indeed is one of the main reasons for their popularity. Other reasons include the simple absence of cash—barter ballooned in 1992 as the government tried to tighten monetary policy. It may also reflect a desire to avoid price controls, which still apply to the gas, electric and railway utilities (where one finds the heaviest reliance on barter).

The barter trade is embedded in local networks of factory directors and political bosses. Thus, for example, an enterprise will agree to provide construction materials and workers to repair roads for the local government, in return the latter will agree to write off the project as provision of "tax in kind." The officials presumably have their own way of keeping track of the ebb and flow of favors. This way of doing business is already familiar to them from the days of the centrally planned economy, when informal bargaining for scarce inputs took place in parallel to the formal adherence to plan targets. It has persisted since 1991, and has proved fairly impervious to faltering efforts to introduce Western-style accountancy procedures.

It is hard to separate "illegitimate" and "legitimate" practices in the Russian economy—either before or after 1991. Some of the barter deals may represent honest efforts by selfless managers to, say, provide resources to keep hospitals and kindergartens in operation. But many of the deals, such as those channeled through intermediary firms privately owned by the managers, are used to generate hidden profits that are siphoned off into private, typically offshore, bank accounts.

¹² Aleksandr Kirpichnikov, *Vzyatka i korrupsiya v Rossii* [Bribery and Corruption in Russia] (St. Petersburg: Alpha, 1997)

¹³ Victor Sergeev, *The Wild East. Crime and Lawlessness in Post-Communist Russia* (Armonk, NY: ME Sharpe, 1998), chapter 3.

¹⁴ Daniel Kaufman, "Why is Ukraine's economy not growing?" *Transition* (World Bank), vol. 8, no. 2, (April 1997), pp. 5-8.

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There are no reliable estimates of the size of the shadow economy not captured in official GDP statistics. The State Statistics Committee itself officially boosts GDP figures by 23% to allow for unreported activity. Most observers consider this an underestimate. (In June 1998 the top leadership of Goskomstat was arrested for, among other things, taking bribes in return for underreporting enterprise output.) According to the former Interior Minister Anatolii Kulikov, the shadow economy accounts for an estimated 45% of all economic activity in Russia (equivalent to over \$100 billion a year).¹⁵

The shadow economy not only decisively influences the daily operations of most enterprises, it has also shaped the allocation of property rights. The privatization process has seen 70% of Russia's state-owned industry transformed into privately owned joint-stock companies over the past decade. In each of its three stages, privatization was characterized by rule-evasion rather than rule-obedience.

The first stage of "spontaneous privatization" in 1988-91 saw individual firms spring up on the basis of assets leased from the state sector, or the granting of special permission to create a private company on the basis of a state corporation. The reformers promised that the second stage of voucher privatization, launched in 1992, would create a new share-owning middle class. In fact, it delivered assets into the hands of insiders, either Soviet-era industrialists or new-era bankers. The third phase of cash auctions since 1995 has seen a series of rigged deals, virtually none of which would pass scrutiny as open, competitive transactions.

Finally, moving from the economic to the political scene one also sees a high degree of rule-aversion. President Boris Yeltsin dismissed the parliament in 1993, in an action of dubious constitutionality, and then pushed through a new constitution that granted him broad leeway to rule as he sees fit with few legislative constraints. Regional legislatures have passed thousands of laws and decrees that violate the Russian federal constitution. Constitutionally-guaranteed rights, such as the option to refuse military service, or to live where one chooses without police permission, are routinely violated by local organs despite court protests. Yeltsin generally tolerated these rule-infractions by regional leaders, who in turn offered him political support.

The situation in political life is not completely bleak from the point of view of rule-adherence. National

elections have been held on time in a more or less free and fair manner, and Yeltsin has avoided direct violation of the constitutional rights of the legislative and judicial branches. The problem in national politics is not so much overt violation of rules, but the fact that there are too many gray areas that are not covered by any existing legislation. For example, the role of the presidential administration (the effective power-center of Russia) is not legally defined, nor are there any rules pertaining to campaign financing.

One issue demanding research and reflection is the way that these various levels of rule-evasion coexist and interact. Clearly, at the very least there is a high degree of congruence and compatibility between rule-evasion at the level of the individual citizen, the enterprise, and political leaders. But how tightly the levels interact is not known. It is generally assumed that the linkage between economic clans and political leaders is very close, that the former provide funding for the latter and expect favors in return. But just how direct are the ties between these elites and the networks of organized crime remains an open question.

Historical Origins

The current situation of endemic rule-evasion in Russia is the product of rapid market transition introduced into an economy and society shaped by seven decades of authoritarian rule and central planning. In pointing to the pre-1991 roots of post-1991 corruption, one should not lapse into determinism, and assume that Russia is doomed by its history to a distorted and corrupted market transition for the foreseeable future.

Still, one can argue that rule-evading behavior in Russia has deep cultural roots. In Tsarist times political authority, and the state in general, were seen as separate from society and were viewed with suspicion by both the common people and intelligentsia. Neither ruler nor ruled felt particularly constrained by rules: political debate was couched more in terms of power, order, obligation and justice than legality *per se*.

In the Stalinist era the gulf between state and society widened still further. There was an explosion of rule-making by state bureaucracies, but these rules were enforced through violence in an arbitrary and unpredictable manner. Both ordinary people and officials developed ways of "beating the system" through creating informal networks of trust. The state generally turned a blind eye to such practices, recognizing that they were functional to social stability and to the smooth operation of the economy. Anti-corruption

¹⁵ Cited in *Obshchaya Gazeta*, no. 30, August 1998.

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campaigns made only a small dent into the entrenched patronage networks of the Brezhnev era.¹⁶

This historical acceptance of rule-evasion seems to have carried over to the new democratic Russia that emerged after 1991. Apart from continuity at the level of social norms, there was also continuity at the level of social organizations. Organized crime networks, which were forged in the labor camps of the Soviet Union, found that opportunities for their services (protection rackets, money laundering, smuggling, prostitution) increased during the economic liberalization which began in the perestroika period.¹⁷ These criminal gangs proved to be one of the social institutions most able to adapt and flourish in the shift from plan to market.

Exactly how widespread is organized crime in the new Russia is a matter of some controversy. The Russian public perceives it to play an important role, and in Western popular imagery (i.e., Hollywood) the Mafia has replaced the Communist Party/KGB as the spirit behind the Evil Empire. But it is not clear just to what extent criminal gangs have extended their influence through the various layers of the shadow economy. The level of banditism seems to be lower in Russia than in, say, Chechnya or Colombia: the criminals have not managed to establish physical control over large chunks of territory. The crime of kidnapping for ransom is not widespread, and seems mainly confined to mutual feuds between gangs of Caucasian origin. Another factor muddying the waters is the fact that local police organs (Ministry of Interior, Tax Police, Federal Security Service) often seem to have a degree of competition and collaboration with the criminal groups. For example, 80% of the security services guarding property in Moscow are provided under contract by personnel from the official security organs.

The Communist Party elite has also shown a degree of adaptability by surviving the market transition with a degree of political and economic power still in its hands. However, it would be a mistake to treat this vast bureaucratic host as a monolith. The nomenklatura system was a set of bureaucratic procedures for the recruitment and promotion of cadres, it was not a secret society or a tightly-knit group of people with common interests and values. The nomenklatura as a sociological group (about 2 million strong) had deep internal divisions—ideologists versus economic managers, for example—and was separated into distinct compart-

ments by economic sector (the military-industrial complex, energetiki, agrarians).

Some organizations of the communist era, such as the Komsomol or academic institutes, proved to be good training grounds (in terms of skills, values and contacts) for the new capitalist elite.¹⁸ While individuals used these organizations as a springboard to launch themselves into the market economy, the institutions themselves did not, by and large, survive the post-Soviet transition (at least not with the same status they enjoyed prior to 1991).

Although one can see a degree of continuity in social values from the communist era, and a degree of continuity in the composition of elite groups, there have been radical changes in the formal institutions through which political and economic life is managed in Russia since 1991. These rapid changes have involved the swift collapse of many old institutions and a much slower and more hesitant building of new institutions. Given the collapse of formal institutions, the persistence of informal values and networks looms even larger in shaping the development of post-1991 Russian society.

Corruption and Political Life

While rule-evasion was becoming a norm of life in the new market economy, it was also invading the nascent political sphere of democratic Russia. This trend is visible both in the way the political elite conducts its business, and in the relations between the elite and the masses.

Polls suggested that by 1997 the Russian public had come to believe that the Mafia had replaced the nomenklatura as the shadowy power ruling their country. An August 1997 poll asked respondents "Who do you believe runs Russia?" A remarkable 52% selected as their first choice "the Mafia, organized crime," followed by "the state apparatus" (21%), the president (14%), regional authorities (11%) and the government (10%).¹⁹ Other polls confirm that the level of public trust in national and local political leaders and political institutions in general is extremely low.

A natural consequence of the public's suspicion that "all politicians are crooks" has been their willingness to elect to public office candidates of dubious moral probity. Criminals themselves are keen to get

¹⁶ William Clark, *Crime and Punishment in Soviet Officialdom* (New York: ME Sharpe, 1993).

¹⁷ Sergeev, chapter 6.

¹⁸ Steven Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge: Harvard University Press, 1998).

¹⁹ Poll of Institute for Sociology of Parliamentarism, cited in *Moskovskii Komsomolets*, 5 September 1997.

elected, since this may bring either immunity from prosecution or political connections which can dissuade prosecutors.²⁰ A striking example of this was the March 1998 election of Andrei Klimentev, a nightclub owner and thrice-convicted criminal, as mayor of Nizhnii Novgorod, the fourth-largest city in Russia. The election commission struck down the results of the election, citing vague procedural irregularities. One month later Klimentev himself was sentenced to six years in jail on fraud charges.²¹ In October 1997 a local criminal boss, Gennadii Konyakhin, was elected mayor of Leninsk-Kuznetskii in a Siberian coalmining region. Local residents actually demonstrated on his behalf after he was removed from office on Moscow's orders.

President Yeltsin won re-election as president in July 1996 despite the fact that between the first and second rounds of the election two campaign aides were discovered carrying a Xerox box with \$500,000 cash out of the Kremlin. The legal case against the aides was dropped at the end of the year, when the law expired which had made it illegal to handle large amounts of foreign currency without Central Bank registration. (Also, it transpired that no one had come forward to report the money as missing.)

Within the space of a few years Russia made the transition from a political system based on a single ruling party to a pluralistic, electoral democracy. Russia has not yet experienced a turnover of power in the key political position of the presidency, but the June 1996 presidential election was generally regarded as free and fair by the international community. However, by 1995-96 it became commonplace to see decision-making in the Russian government and presidential administration as heavily influenced by a set of financial "clans" or oligarchs. These magnates used their capital to gain control over media outlets, and made their cash and publicity machinery available to chosen candidates in elections. In the new system money has replaced ideology as the currency of power, the glue holding together the political elite.

The reliance of elites on clan politics, on the one hand, and public acceptance of rule-evasion as pervasive, on the other, creates a vicious circle of self-

reinforcing political behavior. Corruption infiltrates and undermines the very processes that have the potential to keep it in check—the legal system, the security organs, the electoral process. This makes it very difficult to identify and encourage anti-entropic processes which can stem the tide of corruption.

The Prospects for a Reduction in Corruption

Much of the writing on corruption in transition economies adopts a hortatory character. Liberal critics of the situation in Russia argue that corruption is bad for democracy and bad for long-run economic growth. They therefore insist that Russia must adopt rule of law if it is to move forward - without explaining how precisely Russia can get from the present anarchy to a law-based system.

One can sketch out five possible paths (not mutually exclusive) through which Russia could move in the direction of more rule-adherence and less rule-evasion. All of the solutions have one thing in common: they require time. Rule-observation, and rule-evasion, hinge on collective expectations. Expectations about whether other persons will obey or ignore rules are primarily based on observations of past behavior. Russian society is facing a prisoner's dilemma of rule-evasion, in which everyone was defecting from rule-obedience through 70 years of a socialist economy and 7 years of an ostensibly market economy. Russians can see that it would be in their interest to live in a society with rules which everyone obeys, but in a society where one expects others to evade the rules, there is no incentive for a single individual to start obeying them.

(1) *Introduce liberal institutions.* This approach, central to the policy adopted by the U.S. government towards Russia, posits the step-by-step construction of a rule-of-law based society through the introduction of tried-and-true Western institutions: freedom of the press, an independent judiciary, tight anti-corruption legislation; a professional and well-paid civil service. The driving force in this approach is the emulation of Western experience. Just as companies strive to adopt the "best practice" of the world's most advanced corporations, so Russian politicians should realize that liberal democracy is the best system of political organization. Aid and trade opportunities have often been tied (at least rhetorically) to the adoption of Western institutions. Over the past five years the World Bank has started to make the adoption of anti-corruption measures an important part of its lending policy in the developing world.

²⁰ For comparison, in India it is estimated that more than 10% of the candidates in the 1996 parliamentary elections had criminal records. See John Burns, "In India, Criminals Take to the Campaign Trail," *New York Times*, 26 February 1998.

²¹ Former Nizhnii Novgorod governor Boris Nemtsov was also implicated in the Klimentev loan fraud. See Jamestown Foundation *Monitor*, 13 August 1998; Institute for EastWest Studies *Russian Regional Report*, no 22 (1998).

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There is no question that these liberal institutions can help battle corruption. A free press clearly plays a pivotal role in mounting a challenge to corruption. By and large, it is only through the media that we learn about corrupt behavior, and press exposure can force politicians and legal authorities to take action. But the free press is not a panacea, of course. Media exposure is no guarantee that action will be taken to stop the malfeasance. Authoritarian leaders have a broad array of means to intimidate or shut down independent editors and journalists, from tax inspections to assassinations. Russian experience shows that the media may themselves become part of the politics of corruption, being used as a vehicle for throwing dirt on political opponents. In the summer of 1997 a war of compromising materials or *kompromat* flooded the Russian media, as rival clan leaders battled over the spoils of privatization. (The low point was the release of a grainy video of the justice minister cavorting in a mob-connected bathhouse.) Finally, one should note that repeated public airing of corruption in the media may merely serve to encourage public cynicism and the conviction that everybody is breaking the rules.

Likewise, while an independent judiciary is often seen as a *sine qua non* for effective anti-corruption campaign, experience suggests that the judiciary can only succeed if the broader political context is favorable. A judiciary that is "too" independent of the political system may lack the authority to go after the top dogs of the corrupt establishment (as may be true in India). If the judiciary is so independent as to become a political power in its own right, that too can generate concern that justice is not being served by anti-corruption campaigns—witness the controversy around the motives of the investigating magistrates in the Tangentopoli scandal in Italy.²²

These caveats aside, most would agree that it would be better for Russia to have liberal institutions than not to have them. The key problem is how to get these institutions into place. Social institutions cannot easily be exported. Proffering advice and lending money to promote their adoption does not seem to have worked in the Russian case. What is lacking in the orthodox liberal account is some explanation of the politics of anti-corruption: what incentives are there for local elites to embrace these measures at anything beyond a rhetorical level?

(2) *Democratization*. A more refined version of the liberal solution relies upon democratization as the decisive factor in promoting rule of law and hence a diminution of corruption. The prevalence of corrupt practices benefits a small privileged elite at the expense of the majority. Giving real political power to that exploited majority through the introduction of competitive elections should increase the prospects for an effective anti-corruption drive.

The problem is that in practice one sees few examples of leaders coming to power on an anti-corruption ticket, and even fewer cases where that leadership successfully tackles corruption. Unscrupulous leaders may rise to power using the rhetoric of "clean hands," but on winning office they merely replace the former corrupt officials with their own cronies. Boris Yeltsin's own efforts to battle corruption have seen few heads roll, and have amounted to little more than populist gestures, such as the abortive 1997 campaign to have state officials renounce their foreign limousines in favor of Russian Volgas. In April 1997 a presidential decree instructed all senior government officials to file a declaration of family income and assets. This produced some laughable results. (For 1998, the executive secretary of the CIS Boris Berezovsky, a businessman who is described by *Forbes* magazine as a billionaire, reported net assets of \$38,000.)

Unfortunately, experience around the globe suggests that democratization is not an antidote to corruption, but may in fact be highly compatible with the persistence of rule-evasion. Part of the problem is that many societies adopt a charade of electoral competition while preserving power in the hands of a narrow elite. Indonesia and the Philippines are examples of such a "quasi-democracy" or "pseudo-democracy." Introducing a quasi-democracy is quite easily accomplished. Developing a real democracy with a competitive party system, in which ordinary people can exercise real power over their leaders, is far more difficult. And even well-established democracies can fall prey to corruption: witness the campaign finance scandals that have dogged nearly every developed democracy. The huge sums of money which are required to run professional party bureaucracies and mount media election campaigns can often only be obtained through quasi-legal means, either tapping into the public purse, or soliciting donations from powerful interest groups.

(3) *The robber baron argument*. One cynical approach is to concede that corrupt elites cannot be displaced from power by pressure from outside (the international community) or from below (a mobilized public). They

²² Stanton Burnett and Luca Mantovani, *The Italian Guillotine* (Washington, DC: Center for Strategic and International Studies, 1998).

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will only abandon rule-evasion when they conclude that it is in their own interest to do so.

Adherents of this position argue that liberalism and democracy fail to address the reality of political power in the transition societies. The ruling elite is strong enough to prevent liberal-democratic institutions from working to promote good government. Hence the only hope for a diminution of corruption is that the leading beneficiaries of the rule-evading society—the corrupt elite—will eventually realize that it is in their interest to create a framework of law and order. As Thomas Hobbes observed, even the richest person in society is vulnerable to a blade in the back from an irate peasant. Hence the Russian elite will tire of having to spend a large portion of its wealth protecting their families from kidnappers. Having accumulated wealth through trade and financial intermediation, they will see that long-term prosperity requires long-term investment in productive assets: something that will not happen in Russia unless the rule of law is strengthened.

A parallel line of argument is to suggest that some sort of Darwinian struggle has been taking place between the financial magnates (and for that matter between Mafia gangs). After a few years of strife a power hierarchy will emerge, perhaps regionally segregated, and these bosses will be able to strike deals with each other in a fairly civilized and predictable fashion. Slowly but surely these bosses will gravitate towards the state apparatus, since what is the state but a large, sophisticated, monopolistic protection racket? One can also use the diminishing marginal utility of money argument. Having achieved a certain level of wealth, corrupt leaders will lose interest in making more money, and will explore charitable and patriotic outlets as a way to achieve more lofty and lasting rewards.

Unfortunately, it is something of a leap of faith to believe that the Mafia leopard will change its spots. Just because some societies managed to pass through a phase of corrupt elite rule is no guarantee that others will follow the same path. Argument by analogy is inherently deceptive. Why should present-day Russia resemble nineteenth-century America, and not, say, contemporary Nigeria? After all, there are some important structural differences between modern Russia and robber baron America. First, the latter country had experienced 200 years of civil society, limited democracy and rule of law, none of which is true for Russia. Second, the robber barons flourished in an epoch of rapid economic expansion, improving efficiency, rising living standards and a booming population. In contrast, the Russian robber barons are profiting from a collaps-

ing economy and a stagnant if not impoverished society.

A third element of difference, connected to the second, is that the Russian elite is exercising an exit option. They are taking their money, and their families, and moving them abroad—to Cyprus, the South of France, and elsewhere. Electronic banking and jet travel make the exit option more attractive for elites of the late twentieth century than was the case in previous eras.

(4) *The strongman scenario.* It is widely assumed that the natural response to anarchy is order imposed from above, by a new “strongman” leader. Rather than waiting for the incumbent corrupt elite to change its ways, perhaps only the arrival in power of a new counter-elite will bring about a change in the status quo. This new leadership will probably come to power through violence (by coup, revolution or foreign conquest); will originate from a social group bearing values distinct from those of the corrupt elite. The typical source for such strongmen is of course the military, but new sources appear from time to time (such as the Afghan Taliban).

The record of “strongmen” rulers in battling corruption is rather poor. As Lord Acton noted in the last century, “absolute power corrupts absolutely.” Outsiders may quickly succumb to corruption once they become insiders. Recall that Alaksandr Lukashenka, the dictatorial president of Belarus, rose to power in the Belarusian parliament through his energetic anti-corruption investigations. Similarly, Vladimir Meciar, who presides over one of the most corrupt regimes in Europe, is one of the few politicians in the region to have won twice in fair elections. After experiencing decades of dictatorial rule, only about a third of the Russian public evince any enthusiasm for a strongman regime (as reflected in opinion polls and voting patterns).

(5) *Economic competition.* The market economist will put her faith in increased competition as the best long-term antidote to corruption. The core strategy is to shrink the size of the public sector through deregulation and privatization, thereby diminishing the opportunities for rent-seeking behavior by bureaucrats and politicians. State contracts should be allocated through