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Corruption in Russia – Historic Legacy and Systemic Nature

Abstract

This paper argues that corruption in Russia is systemic in nature. Low wage levels of public officials provide strong incentives to engage in corruption. As corruption is illegal, corrupt officials can be exposed any time, which enforces loyalty towards the powers that be; thus corruption is a method of governance. We trace the systemic corruption back to the Mongolian empire and demonstrate its persistence to the current regime. We show the geographic distribution of contemporary corruption within Russia, survey the literature on the causes, consequences, and cures of corruption in Russia, and discuss entry points to fighting it.

JEL-Codes: D730, H110, H730, K420, N400, P370.

Keywords: corruption, governance, institutions, political economy, history, Russia.

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Taking bribes is indissolubly interlaced
with the whole system and political life.
Berlin, (1910: 48)

1. Introduction

Corruption in Russia is more than the abuse of public power for private gain as the standard definition by the World Bank suggests (World Bank 1997: 102) – it is an integral part of the power configuration (e.g. Dawisha 2015, Pavroz 2017) and as such systemic (Charap and Harm 1999). Corruption serves two main functions: rent extraction and securing loyalty of subordinates in the administrative hierarchy.

The first function is straightforward and has been the center of interest in economic literature on the topic.¹ Illegal rents are extracted from the economy by public officials, who use their administrative and political power in the form of bribery, kickbacks, patronage or direct embezzlement. In Russia, the rationale behind this rent extracting is not only greed, but also need – illegal income from corruption compensates for low official wages. Zhuravleva (2016) finds that public employees in Russia enjoy the same level of wealth and expenditures as their counterparts in the private sector even though the salaries in the civil service are lower.² Schulze et al. (2016) find that corruption declines with rising relative income of public officials. The inadequate pay makes corruption almost universal in public services.

The second function of corruption is to secure loyalty and to generate stability of the political regime through subordination of the administrative hierarchy (Darden 2008). As long as lower levels of the administrative system remain loyal, illegal self-enrichment through the abuse of public office is informally tolerated and rarely prosecuted. Ledeneva (2009: 278) notes that loyalty to the political regime in Russia is “an essential operating principle in public administration with rewards distributed through the system of perks and informal payments”. Corruption thus creates a powerful leverage against those who engage in it since it is officially illegal. The punishment for disloyalty is then masqueraded as a prosecution of corruption. Wages

¹ See, for example, Olken and Pande (2012), Kis-Katos and Schulze (2013) and Dimant and Tosato (2017) for literature reviews.

² See also Zhuravleva (2013). Gorodnichenko and Sabiryanova Peter (2007) find a similar effect in Ukraine.

are kept artificially low to induce corruption, which allows disciplining disloyal public officials and rewarding loyal ones at will. This view is opposed to the popular perception of corruption as a sign of a malfunctioning state. In fact, it is creating stability in autocratic regimes.

This argument is supported by empirical evidence. Fjelde and Hegre (2014) find that corruption is positively associated with political stability in countries with autocratic and hybrid regimes, but not in democracies. At the country level the disciplining function of corruption has been established for Indonesia (McLeod 2008, 2012), the Philippines (Quimpo 2009) and for African countries (Arriola 2009), among others. The most recent illustration of this mechanism in Russia is the arrest of Economic Development Minister Aleksey Ulyukaev in an intricate criminal case of extorting a bribe from the powerful CEO of the state oil company Rosneft and close friend of President Vladimir Putin, Igor Sechin. In the light of contradictory evidence, most experts on Russian politics suggest that "it is more likely a personal conflict of loyalty."³ Before the arrest Ulyukaev was a trusted public official, who served in different offices for over 25 years and, despite of his modest official salary, managed to accumulate considerable wealth in the form of real estate and business including offshore companies.⁴ While it is not possible to say whether the minister profited from his office illegally before or whether the allegation was justified, the unprecedented arrest of an official as high-ranked as a minister sends a message to bureaucracy that there is no political immunity when subordination is compromised.

These functions have made the practice of corruption extremely successful for the political elite in Russia at every level of the bureaucratic hierarchy. At the top, it has guaranteed an unchallenged monopoly on political power of President Putin and his inner circle for the last

³ See the interview of Julius von Freytag-Loringhoven, director of the Moscow offices of the Friedrich Naumann Foundation, with Deutsche Welle: <http://www.dw.com/en/russian-ministers-arrest-a-fight-against-corruption-or-liberalism/a-36404692> (accessed on 01.10.2017). The official allegation states that the minister threatened Rosneft and extorted a bribe in exchange for sanctioning a purchase of Bashneft, another oil company, a \$5 billion deal that was already approved by Putin. The most likely cause of conflict was the initial objection of Ulyukaev and several other senior officials to the Bashneft deal as it would have resulted in Rosneft dominating the Russian oil market. For more information cf. <http://foreignpolicy.com/2016/11/15/why-was-russias-economic-minister-ulyukayev-putin-rosneft-corruption-russia/> (accessed on 01.10.2017)

⁴ For example, the official monthly salary of a minister in Russia is about \$6000, but in 2015 Ulyukayev declared an income of over \$1 million (average estimates of officials salaries can be found in publication by RBC: <http://www.rbc.ru/politics/09/03/2015/54fdbb749a794705c04ffc03>, accessed on 01.10.2017). The data from the official declaration can be accessed from a declaration database of public officials (<http://declarator.org/person/4491/>).

17 years and has supported them financially. The lower levels of bureaucratic hierarchy, such as the regional elites, hold their offices on the implicit condition of providing favorable electoral support (often via voter mobilization or through electoral fraud) and to relinquish personal political autonomy. In return they enjoy administrative rents and strengthen their loyalty network by further informally sanctioning rent seeking among subordinates (e.g. Reuter and Robertson 2012; Bliakher 2013).

The origins of the Russian corruption model have been broadly discussed in the political science literature. Dawisha (2015) argues that it has been designed and implemented by Vladimir Putin himself as it was central to his success in rising to power and, once he had become president, as his main goal was to build an authoritarian state in order to satisfy his plutocratic interests. Her argument is supported by a rich account of news reports, official documents, memoirs, WikiLeaks and witness testimonies collected by Russian and foreign journalists. In contrast, Zygar (2015), based on dozens of interviews of key Kremlin figures, portrays the political elite as much less structured around Putin as usually believed. He argues that the political life in Russia is not guided by an authoritarian masterplan, but by incentives that are chaotic and short term, and thus opportunistic in their nature.

In this chapter, we argue that the spontaneous order is derived as a product of institutional path-dependence: the system of corruption may not have been consciously planned by specific political actors but, nevertheless, is a consequence of the historical evolution of the Russian state. The historical perspective demonstrates how both functions of corruption persisted across centuries and played very similar roles in state governance under all political systems (monarchy, socialism or formal democracy).

We also review the empirical evidence on corruption in modern Russia and show that corruption intensity is very unequally distributed across the Russian regions and that these differences are responsible for a heterogeneous development of the regions in terms of investment, foreign direct investment and even road safety. Finally, we look at the main determinants of corruption in Russia and inquire how they might suggest a solution to the corruption problem.

2. History of Russian corruption

Corruption in Russia shares a great similarity with systemic corruption in countries such as Mexico, the Philippines and Indonesia (e.g. Johnston 2008; O'Hara 2015), which inherited

their institutional backwardness from their colonial heritage. Angeles and Neanidis (2014) argue that countries in which European colonizers constituted only a small minority in the population suffer from higher levels of corruption. European settlers formed powerful local elites, who engaged in corruption to procure benefits for themselves at the expense of the population at large without running the risk of being penalized by law. The patronage system once installed by Europeans to exploit their colony was later adopted by the following generation of elites, who reproduced this extractive system of rent seeking.⁵

While Russia was not subject to European colonization, it has a similar chapter in its history. In 1240, long before Russia was a centralized state, the country was conquered by the Mongols and became a dominion of the Golden Horde (1240-1480).⁶ The new rulers demanded tribute and installed a dual administration, where the Russian grand princes were entrusted with tax collection and in return were allowed to keep their share (Ostrowski 2002). The system was profitable for the grand princes since they could exploit their position to extract surpluses from the population for private use. The Mongols were indifferent to this rent seeking as long as their share was paid and entrusted grand princes showed their loyalty. There was no guarantee that the right to collect taxes would remain in the hands of the same grand prince as the Horde rulers exercised the policy of divide and rule by preventing any principedom from becoming strong enough to contest political power (Hartog 1996). This produced an environment where local elites were accountable only to the supreme power of the Horde and the subdued population was subject to oppressive taxation and exploitation by both levels of administration.

The end of Mongol rule in 1480 did not dismantle the extractive practices; instead, they were successfully adopted by the Russian grand princes to establish control over their extensive territories. The practice of taxation under dual administration then became an institution known as *kormlenie* („feeding“ or „nourishment“ in Russian): a vicegerent received a province to supply („feed“) him and his servants as a reward for service and tax collection. However, it was not a typical feudal system in a sense of “a formalized, hierarchical set of relationships” (Hosking 2000: 302) as peasants were free to change their landlord and even vicegerents could quit the service

⁵ This is a variant of the more general argument that the form of colonization – extractive or inclusive – was largely determined by the relative number of European settlers in the colony and that the quality of institutions so determined has persisted (Acemoglu et al. 2001, Acemoglu and Robinson 2012).

⁶ The Golden Horde was originally the northwestern part of the Mongol empire but later became a separate entity.

of one grand prince and move to another.⁷ The right of *kormlenie* was only temporary and could be revoked at any time, eroding the system of private and public property and propelling the abuse of authority. The rate of extracted resources and its limits were not determined officially, but emerged as a result of informal negotiations between an official and the population under his rule. Often *kormlenie* is seen as the earliest Russian practice associated with corruption.⁸ Kovalevski (1960: 83) calls it „a legalized bribery“ that „preceded in the evolution of Russian institutions“.

Hedlund (2005) provides a convincing account of path-dependence in institutional development from the early times of Kiev Rus through the collapse of the Soviet Union to the current electoral authoritarian system and finds that, despite its official abolition in the 16th century, *kormlenie* has persisted over time in various forms. It has persisted under different regimes because Russian rulers could not afford to pay adequate official salaries and because it was expedient for them to secure loyalty among subordinate officials as a reward for sanctioning income that was officially illegal.

The historical evidence provides curious accounts on the intensity of corruption. For example, the complaints of the local population in the Dvina region, one of the north western regions of Russia, at the end of the 17th century suggest that the governors who were appointed to the region used to extract about 2050 rubles per year, which amounted to a third of the annual tax collection (Kopanev 1984:201). The other source of data on corruption in Imperial Russia is found in the record books from large agricultural provincial estates of nobility. Using this source Korchmina and Fedyukin (2016) find that almost every interaction with a representative of the state was accompanied with some sort of „gift“, creating very significant extra incomes for public officials. Their estimates suggest that extralegal payments to officials amounted up to 70 percent of their legal income and that high-ranking officials received the largest shares of almost twice of their salary. This is only a lower bound of corrupt income since the data from Korchmina and Fedyukin (2016) cover only big agricultural estates and do not include other sources of corruption, such as trade.

The institution of *kormlenie* did not only survive the 1917 revolution, it also played a prominent role in the demise of the Russian monarchy. Corruption was widespread during the

⁷ The mobility was suppressed in the second half of 16th century.

⁸ There is an abundant historical literature on the topic of *kormlenie*, see, for example, Davies (1997).

revolution and civil war among both conflicting sides as depicted in Brovkin (2003), however, there was a crucial difference in the corrupt practices that eventually played an important role in the victory of the Reds/Bolsheviks. Brovkin argues that „the Whites believed that the population had to be so grateful to them for the liberation from the Bolshevik rule that it should be willing to pay for the maintenance of the army and the new administration. This view generated immense corruption among the White civil service" (Brovkin 1994: 199). At the same time, the Whites did not engage the local population in governance, as did the Reds: „The Bolsheviks divided the local community by promoting some over others, delegating administrative authority to them, knowing full well that they would use that authority to serve their own interests" (Brovkin 1994: 200). This reincarnation of the familiar *kormlenie* system was once again „a method of governance" (Brovkin 1994: 200).

Corruption as a method of governance was continued and strengthened after the revolution. Anderson (2012:72) writes: „The Communist (Bolshevik) takeover of the state in October 1917 ushered in a radical top-down transformation of social, political, and economic life that created ideal conditions for the proliferation of corruption. Both opportunity and incentive for corrupt behavior were embedded in the very political and economic structure of the Soviet Union." The Communist Party of the Soviet Union (CPSU) held the monopoly on political power and established a strong hierarchical system (*nomenklatura*), in which main official positions were appointed by the higher-level administration. Members of the *nomenklatura* enjoyed social status and privileges and could not be prosecuted on criminal charges without approval from the party. The absence of political competition and the full control of state institutions precluded a system of checks and balances as accountability mechanism (Harasymiw 1969) and the rule of the party was above the law (Simis 1982). This gave rise to extensive informal networks, which systematically abused political power for personal gain and for even more political power. Vaksberg (1991) documents the activities of these networks of public officials and finds their stark resemblance to organized crime syndicates or the mafia. Just as the mafia, the Soviet *nomenklatura* valued loyalty and subordination of its members the most, as opposed to competence or honesty.

While opportunities for corruption soared with an increasing role of the government in economy, politics and even everyday life (Kramer 1977), the incentives for rent seeking were still very similar to those of the past regime: public officials were inadequately paid, especially outside of the top ranks of the *nomenklatura* (Anderson 2012). The constant severe shortages in

goods and services were only partially compensated by a complex system of privileges, and some privileges such as personal cars or *dachas*, if provided, were not granted permanently but could be withdrawn (Matthews 2011). That essentially reproduced the system of *kormlenie* once again.

The fight against corruption in the Soviet Union was sparse and often politically motivated. Kramer (1977) observes that despite official concerns publicly expressed by higher authorities and anti-corruption propaganda, corruption remained generally unpunished and occasional convictions often resulted in mild punishments, such as job loss.⁹ Kramer suggests that exposing corruption was undesirable in the Soviet system simply because of the risk of being criticized for allowing it in a first place (cf. also Simis 1982:50). Nevertheless, some corruption cases received wide coverage in Soviet newspapers. Clark (1993) gathered data on all convictions of public officials reported by the press during 1965-90 and analyzed it with respect to timing and geographical distribution. He finds that a dramatic increase in convictions of local officials in the Soviet republics was often preceded by changes in important party positions. These findings suggest that convictions were politically motivated and anti-corruption measures were used as a weapon within the *nomenklatura*. In fact, this mechanism was a part of the bigger informal practice of *kompromat*, short for „compromising materials“, under which information on illegal or otherwise compromising behavior was collected and preserved in secrecy as a leverage (Ledeneva 2006). *Kompromat* was efficient in enforcing subordination because officials with “guilty secrets” could be easily controlled (Harrison 2011), and corruption was probably the most common of all “guilty secrets” used for that purpose.

Corruption eventually played an important role in demise of the Soviet Union. In the face of a dysfunctional economy and heavy costs of the Cold War, increasing corruption in the Soviet Union became a „substitute for reform of the institutional structure“ (Schwartz 1979). While formal reforms would have sooner or later challenged the exclusive political status of the elite, corruption offered the Soviet leadership a stable informal alternative to accommodate a diverse array of social interests but naturally at significant costs. Besides the obvious economic damage from corruption, a decrease in vertical mobility caused by corruption was one reason behind the growing dissatisfaction with the regime among the majority of the population that was excluded from privileged networks (Jowitt 1983). When the costs reached unbearable levels, the party

⁹ Kramer (1977:222) also notices that „many dismissed officials manage to be reappointed to important positions where they again engaged in corruption.“

had to initiate reforms – ‘*Perestroika*’ and ‘*Glasnost*’ – but they were not able to stop the disintegration process of the Soviet Union.

When the formal Soviet institutions were demolished, informal practices overtook a leading role in all spheres of Russian life. Clientelistic networks formed out of existing branches of the *nomenklatura*, practices of *kormlenie*, patronage and *kompromat* were applied with even growing regularity (Kryshtanovskaya and White 1996).¹⁰ Nationwide privatization became an instrument to transfer public property to the political elite, creating a rich class of oligarchs (Barnes 2006). Black et al. (2000) suggest that the corrupt nature of privatization laid the foundation for a kleptocratic regime as it provided lucrative windfall gains, which were reinvested into buying off politicians and media outlets to secure political power.

The corrupt practices that shaped Russian politics in the early 90s made a U-turn to an authoritarian rule logical. The reverse in democratization started with the presidential election of 1996, which was won by Boris Yeltsin as a result of a biased media campaign (Brovkin 1997), a politicized distribution of public money (Treisman 1998; Treisman and Gimpelson 2001) and electoral fraud (e.g. Ordeshook and Myagkov 2008). The development put the Russian society in a familiar situation as corruption was used to supplement low official salaries and was tolerated as long as the subjects expressed loyalty and political support. However, this time the market economy was a more fertile soil for the practice of *kormlenie* than the rigid planning system of the past (e.g. Oleinik 2011).¹¹

After the unsuccessful attempt of democratization (Evans 2011), it was only natural that the country came under the rule of a former KGB officer, Vladimir Putin. In the Soviet Union, the KGB was the main state security organ, responsible also for the supervision of corruption and for reinforcing subordination within the communist party (Ledeneva 2006). In modern Russia, the KGB has evolved under a different name (Federal Security Bureau, FSB) into a powerful organization that established control over major spheres of the economic and political life via extensive corruption-networks of its former and current members. (Cheloukhine and King 2007). Putin and his inner circle profited enormously from the political monopoly – according to Forbes,

¹⁰ Brovkin (2003) provides an extensive account of corruption during the 1990s, particularly in the area of privatization, the military sector and banking.

¹¹ Interestingly, the persistence of the Soviet legacy on corruption was corroborated in a study by Libman and Obydenkova (2013), who find that regional corruption levels in 2010 strongly correlate with the number of Communist party members that were registered in the region in 1976.

in 2017, the three billionaires who increased their wealth the most, had the closest ties to Putin.¹² The personal wealth of Putin remains secret, but recent leaks of financial documents from Panama offshore companies suggest that it is by no mean modest.¹³

3. Corruption today

Today, corruption is rampant in Russia. In the 2016 corruption perception index (CPI) by Transparency International (TI), Russia scored a low 29 points out of 100 points, placing it at position 131 out of 176 countries surveyed, or at comparable position with other corrupt countries such as Iran, Nepal and Kazakhstan.¹⁴ This ranking suggests that Russia is the most corrupt country among the members of G-20.

Since empirical studies often find the CPI score useful for explaining differences in economic growth across countries (e.g. Mo 2001; Meon and Sekkat 2005), we use it for a back-of-the-envelope extrapolation of its effect on the Russian economy. Using a data set of 101 countries over the last 15 years and accounting for endogeneity and time-invariant heterogeneity, D'Agostino et al. (2016) estimate that a drop of CPI by one point leads to a loss of 0.056 percentage points in annual growth of the gross domestic product. If corruption in Russia were to improve to the level of Poland, a large post-communist neighbor, which scored 62 points in 2016, Russia would have had a positive growth rate of GDP of 1.65% instead of its current negative one -0.2%.¹⁵ In absolute numbers, the cost of corruption in one year is almost 24 billion dollars or roughly the GDP of Estonia.

While being informative, cross-national comparisons disregard a distinct heterogeneity of corruption within large countries such as Russia. The available data at the regional level tells an interesting story of substantially divergent corruption levels across Russian regions. A good

¹² See a news article in Forbes about Russian Billionaires: <https://www.forbes.com/sites/danalexander/2017/03/29/putin-vladimir-donald-trump-russia-billionaires-oligarchs/#3ea2eb9543f9> (accessed on 01.10.2017).

¹³ The connections between Putin's friends and Panama offshore companies are elaborated in the investigation by Süddeutsche Zeitung: <http://panamapapers.sueddeutsche.de/articles/56fec05fa1bb8d3c3495adf8/> (accessed on 01.10.2017).

¹⁴ Data are available at TI website: https://www.transparency.org/news/feature/corruption_perceptions_index_2016 (accessed on 01.10.2017).

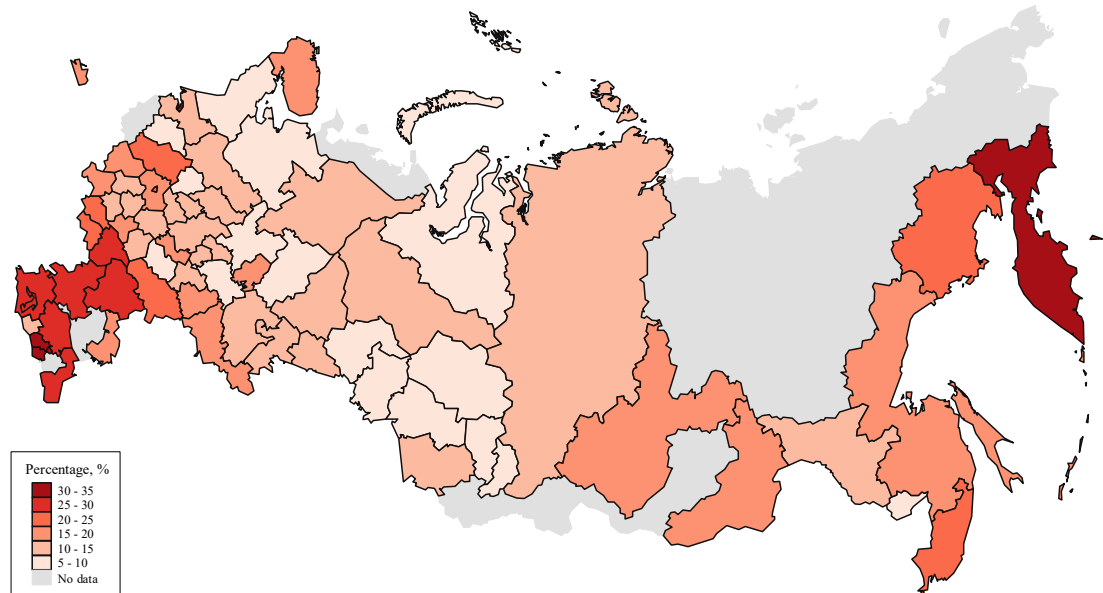
¹⁵ Data on GDP growth rate are from the World Bank: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?cid=GPD_29&locations=RU (accessed on 01.10.2017). The results are relatively similar if we use data and the estimates from D'Agostino et al. (2016) for the World Bank index.

illustrative example is provided by the public opinion survey across Russian regions, carried out in 2011 by Public Opinion Foundation (POF).¹⁶ In this large survey, over 54 thousand citizens in 74 regions were asked about their experience of corruption over the last two years. On average, 15% of respondents answered positively to the question „during the last 1-2 years have you encountered a situation when a public official asked for or expected an unofficial payment or a gift for his/her services?“. Yet, this share varies significantly across regions ranging from a share of 5% of positive answers in the Jewish Autonomous Oblast to a maximum of 35% in the Kabardino-Balkar Republic. The spatial distribution of corruption experiences is presented in Figure 1. Higher corruption correlates with poorer economic development, as, for example, in the South of the European part of Russia and the Far East.¹⁷

¹⁶ The full survey is available at the website of the Ministry of Economic Development: http://economy.gov.ru/minec/activity/sections/anticorruptpolicy/doc20110614_027 (accessed on 01.10.2017).

¹⁷ This correlation that has been previously found in Dinion and Orttung (2005) for earlier years.

Figure 1: Geographical distribution of corruption experiences of the Russian population in 2011, percentage of respondents with corruption experience.



Zakharov (2017) uses the differences in corruption across the regions to explain variations in local investment. He finds a negative correlation between corruption and investment by private companies and even more so for investment of companies with foreign ownership. As public opinion data can be biased, especially in the case of Russia (Sharafutdinova 2010), he employs data from police authorities on registered corruption cases as preferred corruption measure (which was used previously by Schulze et al. 2016). The number of registered cases of bribe-acceptance per 100,000 population is a good proxy for corruption as it reflects a number of corrupt incidents, is much less politicized than conviction rates, which are commonly used in the literature on corruption in the USA (e.g. Alt and Lassen 2012), and reflects the timing of corruption incidents better. Because corruption incidence data are available for all regions for the period 2004-2013, Zakharov (2017) is able to run fixed effects regressions that include region-specific and year fixed effects as well as a comprehensive set of controls and thus controls adequately for unobserved heterogeneity between regions. As causality between corruption and investment can run both ways, Zakharov establishes a causal effect of corruption on investment through an instrumental variables approach, in which the idiosyncratic development of regional freedom of press is used to instrument for (potentially endogenous) corruption levels. Again, he finds that corruption is a significant determinant of local under-

investment for private and in particular foreign investment: periods when a region had a relatively free press and consequently experienced less corruption were periods with higher local investment. Private investment as one of the most important determinants for economic growth is thus extremely sensitive to corruption also in Russia.

Other studies analyze the effect of regionally different corruption levels on other economic outcomes. Kuzmina et al. (2014) use a survey of small and medium firms in 40 Russian regions and find that the effect of corruption on (non-offshore) foreign direct investment is significantly negative. They address a potential endogeneity of corruption by using historical determinants of regional corruption as instruments.

Corruption has also been found to be detrimental to bank lending. Using survey data on regional corruption perceptions and experiences from a survey by TI and the Information for Democracy Foundation and data on the volume of bank lending by 882 banks in Russia in 2002, Weill (2011) finds that higher levels of corruption, especially self-reported amounts of bribes given, is strongly associated with fewer loans granted to households and firms, but not with loans to the government.

Even routine areas of everyday life, such as driving, are affected by corruption. Oleinik (2016) establishes a causal negative relationship between petty corruption by traffic police and road safety in Russian regions. He points out a vicious circle of increasing severity of traffic laws to enforce compliance and, as a result, even more widespread corruption to avoid increasing traffic fines.

The literature provides clear evidence that corruption in Russian regions remains politically motivated. At its core, corruption continues the tradition of *kormlenie*: appointment to the region as a governor comes with an opportunity to engage in illegal but financially rewarding activities, which are often tolerated by the federal center if coupled with loyalty and electoral support. Rochlitz (2014) finds that corruption among local public officials associated with criminal corporate raiding is positively correlated with regional results in the elections of the president and his ruling party. His findings suggest that federal authorities put a blind eye on corrupt activities as long as the governor provides favorable electoral support at national elections. In line with this argument, Reuter and Robertson (2012) find that good electoral results for the national elections as a proxy for loyalty are more important for future reappointment of the governors than good governance as measured by economic development.

Since corruption remains a source of enrichment for governors (and their teams) only as

long as they hold office, the end of their terms is accompanied with a sharp increase in rent-seeking (Sidorkin and Vorobyev 2017). Sidorkin and Vorobyev (2017) detect these political cycles using surveys of business people and their timings with respect to end of the governors' terms. The cycle persists only when governors learn about the likelihood of their reappointment being low.

In the regions, rents from corruption are often invested in securing political power. Mironov and Zhuravskaya (2016) detect political cycles of corruption with respect to regional elections by using extensive financial data of Russian private firms in the period 1999-2004. They identify numerous 'fly-by-night' firms, legal entities that exist for a very short duration, pay no taxes and employ no personnel, and show that these firms were often used to channel cash transfers associated with corruption. Fly-by-night firms received cash transfers from firms with government procurement contracts, and this money was used to fund electoral campaigns of governors. After the elections, even more procurement contracts were allocated in return for funding. The strength of these cycles is found to be associated with the intensity of corruption in the region. These findings suggest that local corruption networks were able to undermine gubernatorial elections.¹⁸

4. Control of corruption

Understanding the determinants of corruption is crucial for formulating an effective anti-corruption strategy. We have discussed that the historical institution of *kormlenie*, which gave rise to systemic corruption, has endured because of traditionally low official salaries in the public sector. Would a better remuneration solve the prevalence of corruption? This question is addressed in Schulze et al. (2016), which is the most extensive empirical study of determinants of corruption in modern Russia. The authors use police data on bribe-acceptance incidents for the period 2004-2013, which is prior to the annexation of Crimea and Western sanctions to avoid any political bias arising from these events. Using detailed regional salary data from the Russian Federal State Statistic Service (FSSS), Schulze et al. construct a measure of salaries of public official in the region *relative* to the business counseling sector, which is the most

¹⁸ Gubernatorial elections existed in Russia until 2005, when they were replaced by a system, in which the heads of the regional governments were appointment by the president. After 2012, the elections were re-introduced.

comparable one to civil service in terms of skill requirements and responsibilities. Employing both OLS and fixed effects regressions, they find that corruption declines as relative salaries rise, but at diminishing rates. This implies that increases in salary promote more honest behavior especially among severely underpaid officials, and become less effective as salaries approach competitive levels. If salary levels reach about 176% of the average salary in business counseling, further increases in civil servants' pay will produce no anti-corruption effect, and could even be counterproductive. These findings are corroborated if when cases of experienced corruption or corruption convictions are used instead of registered incidents of bribe-acceptance, and they are robust to alternative reference salaries of white-collar workers in manufacturing. The increase in remuneration of public officials is a costly anti-corruption measure and, as Schulze et al. (2016) show, effective only to a certain extent – it is by no means a silver bullet.

Stricter laws are often considered as an effective deterrent to corruption, and Schulze et al. (2016) test if the introduction of a new anti-corruption legislation at the regional level has affected registered bribe-acceptance. Regional laws were introduced shortly after an introduction of a federal anti-corruption law came into force in 2009. Their main purpose was to establish legislative instruments for fighting corruption, such as audits of the newest legislative acts against their potential vulnerability to corruption, creating intolerance for corruption among the population, and strengthening selection processes of new public officials. Schulze et al. (2016) show that there was a steady increase of over 10 percentage points in the number of registered bribe-acceptance incidents when regions installed new anti-corruption laws and attribute this effect to the increased opportunity to report corruption when the law is in place. Their findings indirectly speak in favor of controlling corruption by legislative initiatives.

Higher local unemployment rates reduce corruption levels as the opportunity costs of corruption increase – job loss and costs of finding an alternative job in case of detection. The same negative correlation with corruption is found for the share of economically active population with a university degree – a better education provides some safeguard against corrupt practices. While educational profile and unemployment rate are negatively correlated with corruption, it is hard to argue that the relationship is clearly unidirectional since corruption could make finding a new job more difficult and it could also discourage people to invest in education. Educational profile and unemployment are not immediately actionable parameters (and would be undesirable in the case of unemployment) and thus provide no entry point for fighting corruption.

(Relative) press freedom is an important determinant of corruption that does provide a second entry point for corruption control. Professional and independent journalism poses significant risks for corrupt officials of being exposed and prosecuted, as their actions can no longer be covered up. In many countries, this press freedom is curtailed by state capture of the media. In Russia press freedom has been in decline since Putin came to power, however, some regions have preserved critical and independent media longer than the rest of the country, which has affected corruption levels. To show this, Schulze et al. (2016) use data from regional surveys of expert opinion from a Russian non-governmental organization, Glasnost' Defense Foundation (GDF), which seeks to protect independent journalism and freedom of expression. The surveys of GDF, which cover the period 2006-2010 and 78 regions, rank local press freedom on a four point scale as „free“, „relatively free“, „relatively unfree“ and „unfree“. Because not a single region is characterized as free, Schulze et al. (2016) analyzed whether „relative free“ is good enough to curtail corruption. Interestingly, they find that when a region becomes „relatively free“, there are 8 percentage points fewer cases of registered corruption incidents, and the converse effect materializes when a region loses its relative press freedom.

Zakharov (2017) looks into this relationship in more detail and notices that often, the status of „relative“ press freedom can coexist with violence or censorship against journalists, which reduces the journalists' ability to effectively control the bureaucracy – the effect of press freedom as found in Schulze et al. (2016) is reduced by two thirds. The effect is most likely causal as the development of press freedom in Russia was idiosyncratic and exogenous to corruption as discussed in Zakharov (2017).

The main policy implication of these findings is that corruption in Russia may be confined by sustaining freedom of press and allowing journalists to do their job independently without the risk of being censored, oppressed, or physically harassed. A recent study by Enikolopov et al. (2018) shows that even one independent blogger investigating corruption can make a difference: they show that the anti-corruption blog posts by Aleksei Navalny, a popular Russian anti-corruption activist, affected market returns of state-controlled companies and their management turnover and lowered conflicts with minority shareholders, indicating an overall disciplining effect.

Evidence-based policy recommendations would thus include an encompassing civil service sector reform with higher salaries, strengthened accountability mechanisms, a non-corrupt judiciary and a clean central law enforcement agency. It would also strongly advocate an

independent free press, free also from harassment by public or private agents. Yet, such recommendations would disregard the systemic nature and the incentives that have led to corruption being systemic. In a recent survey of the state of corruption research, Lambsdorff and Schulze (2015:109) write: “Yet, as systemic corruption affects the entire political economic system, its understanding is crucial for designing successful anti-corruption policies. This includes a comprehension of factors that have led to corruption being systemic (and not only frequent) and of the way the incentive structures were designed to keep the system corrupt.”

We have sketched the systemic nature of corruption in Russia and the incentives of the ruling elite to preserve corruption as a method of governance and enrichment. Any demand for truly enhanced accountability and effective, far reaching anti-corruption reforms would challenge the political monopoly of the elites and thus would most likely evoke repressive policy responses rather than improved control of corruption. Yet, pervasive corruption has the potential to eventually suffocate the current regime economically and politically as it did with the Soviet Union, and may once again open an opportunity to build a more accountable and democratic state in Russia.

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