Corruption in the USSR and Russia

Toshihiko Shiobara

1. Introduction

After 10 years following the collapse of the USSR, the hybrid system that Russian transformation has evolved into has been called a “virtual economy,” or an “enterprise network socialism” (Gaddy & Ickes, 2001, Bernstam & Rabushka, 2001). These perspectives paid heed to behavioral adaptation in the wake of shock therapy. This means that it is important to understand not only the continuation of the Soviet economy, but also how agents adapted their behavior. Although a number of analyses concerning corruption exist, there are few studies which pay particular attention to “mutated corruption” in the transformation process.¹⁾ This is the challenge to explore how corruption in the Soviet era has been mutated in the transformation process. As Bardhan (1997) suggests, if the economy starts with a high average level of corruption, it will move toward a highly corrupt but stable equilibrium. Therefore, we have to begin to analyze the nature of corruption in Russia from the Soviet era, and consider its mutation under the period of transformation. In this article, corruption in the USSR and Russia is described in the next section, with reference to previous studies. Following this, my view will be presented.

2. Previous studies concerning corruption in the transformation process

I will compare some papers in which corruption was explored in the process of the transformation.

2.1 The view of Grossman: Grossman analyzed both the second economy and corruption in the Soviet era. He defines the second economy in the USSR as all production and exchange activity that fulfills criteria of at least one of the two following tests: (a) being directly for private gain; (b) being in some significant respect in knowing contravention of existing law (Grossman, 1977). On the other hand, he understands corruption in its narrower sense of the taking of bribes by officials in relation to the performance of their official functions (Grossman, 1979). He argues that the second economy and corruption have connections with each other. He points out 10 causes of Soviet informal incomes and outlays, which are as follows: (1) the ubiquitous presence of socialist property; (2) prohibition of all but a very narrow range of productive activity in private accounts; (3) very heavy taxation of legal private income; (4) virtually universal price controls, physical allocation and rationing of goods, and innumerable other kinds of official regulations; (5) high taxes

and monopoly profits derived by the state from some of its products; (6) the outright banning of a wide range of consumer articles and services; (7) the ineffectiveness and slowness of the formal production and distribution mechanism; (8) a chronic and generally growing excess of money in circulation; (9) the support, protection, and often deliberate promotion of illegal activity by corrupt authorities at various levels; and (10) the important role of personal connections, a lattice of horizontal informal social networks and vertical patron-client links which activates and reinforces the above-mentioned factors (Grossman, 1989). On the other hand, he enumerates seven conditions for the appearance of a large illegal economy and of corruption of officialdom: (a) price control; (b) prohibition of private activity; (c) taxes; (d) certain kinds of demand left unsatisfied by the state industry as a matter of policy; (e) impersonal property under inadequate custody; (f) the very personal power in the hands of bureaucratic officials and functionaries; and (g) the individual need (Grossman, 1979). It seems that factors such as (1) and (e), (2) and (b), (3) and (c), (4) and (a), and (6) and (d) are approximately the same. If these factors, therefore, would disappear, both the second economy and corruption would be reduced. However, is it possible to say that corruption had in reality been reduced, even if there had been a decline in the second economy? Since Grossman analyzed corruption only in the Soviet era, I cannot infer his views on corruption in the Russian transformation process. The reality has shown that both the second economy and corruption have become widespread even in Russia.²⁾ It is necessary to consider what factors have impinged on their prevalence in spite of eradication of some factors related to the second economy and corruption in the Soviet era. In short, it can be inferred that in the transformation process corruption in the Soviet era has mutated.

2.2 The view of Tóth: Tóth (1999) regards corruption as the prohibited use of public institutions for private purposes under the framework of the principal, the agent and the client. He argues that in times of shortages in an economy enterprises try to give bribes to suppliers for inputs such as resources and parts, and in the consuming sector there is a 'sellers' market,' therefore, buyers try to give bribes to sellers. In both cases, corruption is caused by the obtaining of goods and services rather than money. He then reviews the transactions among the three types of economic agents (households, firms, and government) in the context of the evolution of corruption. Corruption evolving in the course of transactions taking place between households and firms ceases as the economy with shortages can be wound up in the course of market transformation. Corruption among state-owned firms also decreases as the

economy with shortages loses its influence. In economies in transition, many more permits are necessary for everyday survival for households than in developed market economies and the transparency and controllability of procedures is less typical, therefore there is more room for corruption between households and the bureaucracy of government. In economies of transition, corruption related to transactions between firms and the government is associated with either a) obtaining the necessary licenses for the enterprise to enter the market, increase its capacities or operation; b) access to state orders, tax benefits, subsidized credits or c) institutional changes in the economy of transition. Although Tóth pays attention to the “continuity” from a socialist economy to a market economy, it seems to me that the mutation of enterprises to survive in a hard environment under which the distribution system of income has mutated dramatically also should be considered.

2.3 The view of Ledeneva, et al.: Ledeneva et al. published an interesting book, in which bribery and *blat* (the informal exchange of favours) in Russia were analyzed during the transformation period (Ledeneva, et al., 2000). They emphasize that western definitions of corruption can be very misleading when applied to the Russian context. This is because definitions focusing on distinctions between public and private interests or purposes have to confront differences in the economic system and the system of property rights. For example, there were a number of cases where some typical abuses could be interpreted as “organizational” rather than “individual.” The tendency for the distinction between the organization and the individual to be blurred helped to create a favourable environment for “give-and-take” practices in the Soviet period. Therefore, they focus not on corruption as such, but on routine “give-and-take” practices which may or may not generally be referred to as “corrupt.” In a nutshell, they argue how “give-and-take” practices based on *blat* in the Soviet era were changed under the transition to a market economy. According to Ledeneva (2000), the post-Soviet reforms such as functioning markets for goods and capital, privatization of state property, and stopping of the system of socialist guarantees undermined the economic system that nurtured *blat*. As a result, in post-Soviet conditions *blat* ceased being a necessity for everyday life to the same extent as before, however, it is still needed to ensure a better life, a higher standard of living, convenience and comfort. Although they can emphasize that the degree of widespread corruption cannot be compared between a socialist and a capitalist economy, this approach does not explain how corruption became widespread under the period of transformation.

2.4 The view of Gaddy & Ickes: The view of Gaddy and Ickes can be summarized as

follows (Gaddy & Ickes, 2001). In Soviet times, personal relations, connections, and influence (*blat*) were important to the system's functioning. Since in the highly distorted regime of central planning, supply failures were a feature of daily life, relations with local party officials and with other enterprise directors were often crucial to the obtaining of scarce inputs. To survive in the marketizing economic reform, enterprises' and directors' exploitation of relational capital can be thought of as a mutation. The use of strategies that rely on relational capital, which is goodwill that can be translated into informal economic activity, enabled mutant enterprises in the virtual economy to survive without undertaking costly restructuring. They produced goods that could be used for barter or for tax offsets but which could be sold on the market. It can be said that enterprises in Russia were able to use relational capital to insulate themselves from the stringency of the budget constraint. Although they did not refer to corruption, their view is of considerable value to understand the issue of corruption.

2.5 The view of the World Bank: The most representative survey of the World Bank attempts to develop a typology of corruption, which is based on the distinction between two types of corruption—"state capture" and "administrative corruption" (*Anticorruption*, 2000). State capture refers to the actions of individuals, groups, or firms in both the public and private sectors to influence the formation of laws, regulations, decrees, and other government policies to their own advantage by means of the illicit and non-transparent provision of private benefits to public officials. Administrative corruption refers to the intentional imposition of distortions in the prescribed implementation of existing laws, rules, and regulations to provide the possibility of private gains to public officials. Although the survey acknowledges that corruption within the private sector itself can be an important dimension of the problem, it focuses on the interaction between the state and the private sector, since the particular nature of the transition, characterized by the simultaneous building of the state and the market, is rooted in it. This approach is based on the dichotomy of market versus government. Hence, it has introduced an opportunity for powerful interests to influence the structure of state institutions and the formation and implementation of economic policy to their own advantage. To compare the levels of corruption before transformation with the current period, this approach has focused on three factors: (1) the rewriting of an unprecedented volume of laws, regulations, and policies; (2) the extraordinary redistribution of wealth from the state to the private sector; and (3) the virtual absence of institutions either within or external to

the public sector that could effectively check the abuse of public office during the transformation in many countries. Especially, it has paid heed to "lustration," which is one of the most controversial measures taken by some countries to ensure a break with the past.³⁾ Since the second factor is crucial to explore the causes whether a country can prosper or not, as I will argue later, the issue of redistribution of income should be analyzed as one of the two dimensions, as well as the government dimension. In other words, although the survey of the World Bank provides a comprehensive measure of corruption on the basis of the dichotomy of market versus government or through the government dimension, it cannot tackle the problem of circumscribing the boundary of common and private income, which is related to corruption.

3. Two-dimensional approach

As I have already suggested, a two-dimensional approach is necessary to review not only a transformational economy, but also corruption. One dimension based on the dichotomy of market versus government is related to the government dimension, which lies on a continuum ranging from limited to restrictive government. It measures economic control or restriction from nil to full. This approach argues that the nature of corruption depends not just on the organization of government but also on the organization and power of private actors like Rose-Ackerman (Rose-Ackerman, 1999). The other dimension based on the dichotomy of private versus common income is concerned with the income dimension, which extends from a market-based one to a socialistic one, or, synonymously, from private to common income. This approach leads to the conclusion that corruption is rooted in the ambiguous boundary between private and common income. Bernstam & Rabushka insist that the dichotomy of private versus common income supplants the traditional dichotomy of market versus government, on which the views of the World Bank and Gaddy & Ickes are based fundamentally (Bernstam & Rabushka, 2001). In the presence of private income, they may create a market economy. In the absence of private income, they only cause socialism to mutate. The role of the government is ambiguous, too. It may protect private income and it may socialize income and control access to common income. Thus the new dichotomy represents a different observation platform. For these reasons then, when the issue of corruption is discussed, a two-dimensional approach is necessary.

3.1 Concrete corruption in the transformation process

In this paper, assuming that corruption can be defined as the behavior of individuals or organizations to engage in or not engage in violating rules for rents brought about

by the state coordination, changes in types of corruption in the transition is shown in Table 1. The period of transformation began in 1987, when Gorbachev relinquished control over the establishment of cooperative and private enterprises. This can be divided into two periods: (1) from 1987 to 1995; and (2) after 1995, when the agreement on the stabilization of the economy between the Russian government and the IMF had been concluded. The former is called the period of confusion. The latter is called the period of stabilization. The range of corruption depends on what kind of rules we apply. In Table 1, the terms insider rule, which is based on domestic rule, and outsider rule, which is based on general rule in developed countries, are used.

First, it is necessary to consider corruption and theft related to Sample 1. Varese (2000) argues that even if a state employee breaks the trust relationship and steals from the employer, he is not engaging in corruption. This is because he believes that the situation in the corrupt exchange is rooted in the relationship of principal-agent-corrupter. The principal has entrusted the agent with a resource that the latter sells illegally to a third person, the corrupter. In this case, he thinks that there are no corrupters, therefore, the state employee is not engaging in corruption. However, in the real socialist economy, there are a number of corrupters who ask the agent to steal the goods in short supply and resell them. In short, this case is the combination of theft and "speculation" understood in the USSR, that is, the purchase and resale of goods for the sake of gain, which is per se illegal.⁴⁾ Sample 1, therefore, can be regarded as corruption according to my definition. According to Łoś (1998), for a time, although punishment was distinguished between stealing state property and social property, crimes against "socialist" property relations continued to be considered more serious than crimes against life, health, and the liberty of individuals in the USSR. Of course, a pickpocket or a luggage thief cannot be seen as a corrupter, since these deeds are not rent-seeking activity.

Though Sample 2 is not strictly illegal, it is allied with "speculation" or theft of social property. Therefore, Sample 2 can be considered as corruption. The problem is one of how to differentiate Samples 3 and 4 from genuine crimes such as murders, business involving narcotics, and smuggling. It is necessary to add a supplementary condition that activity which is regarded as legal according to the outer rule but against the inner rule should be interpreted as corruption. Genuine criminals except those committing crimes such as Samples 1, 5, and 6 are not seen as examples of corruption. Samples 5 and 6 are related to officials, who are administrators of the state coordination. They, therefore, can make a move to get rent. In transition, Samples 5

and 6 seemed to increase rapidly through state capture. To enable this market economy to function, it was necessary to establish a number of laws, therefore, state capture was one of the most important methods to realize a client's interest. Through frequent changes of law, the discretion of bureaucrats remained as it was before. The spread of state capture and remaining discretion of bureaucrats became a hotbed of corruption. In Sample 7, the privileges of officials may not be considered strictly illegal, however, in some cases there are ethical and moral questions. Therefore, it can be viewed as corruption in this paper.

TABLE 1. The Mutation of Specific Instances of Corruption in the USSR and Russia

Samples of corruption	State coordination	Period of socialism		Period of transformation					
		Rule		Period of confusion			Period of stabilization		
		Insider	Outsider	State coordination	Rule		State	Rule	
					Insider	Outsider		Insider	Outsider
1 Theft of social property by members of social ownership	Social ownership of property	Illegal	Illegal	Decrease of social ownership. Ownership is ambiguous.	Since ownership is ambiguous, it is difficult to verify the violation of laws.	Illegal	The state interference to privatized firms is continued.	Illegal	Illegal
2 'Pushers' (<i>Tolkachi</i>)	Price control, physical allocation and rationing of goods	Though it is not illegal directly, it is concurrent with 'speculation' or theft of social property, which is illegal.	Legal	Decrease of price control, physical allocation and rationing of goods	Though it is not illegal directly, it is concurrent with 'speculation' or theft of social property, which is illegal.	Legal	Sharp decrease of price control, physical allocation and rationing of goods	Though it is not illegal directly, it is concurrent with 'speculation' or theft of social property, which is illegal.	Legal
3 Private entrepreneurs hip	Crackdown	Illegal	Legal	Officials and police continue to watch.	Legal	Legal	Officials and police continue to watch.	Legal	Legal
4 Hard currency operations	Crackdown	Illegal	Legal	Officials and police continue to watch.	Legal	Legal	Officials and police continue to watch.	Legal	Legal
5 Bribery	Committed by officials	Illegal	Illegal	Related to state capture	Illegal	Illegal	Related to state capture	Illegal	Illegal
6 Fraud by officials	Committed by officials	Illegal	Illegal	Related to state capture	Illegal	Illegal	Related to state capture	Illegal	Illegal
7 Privilege of officials	Committed by officials	Though it is not illegal directly, there are some cases against ethics or moral.	Legal	Related to state capture	Confused	Legal	Related to state capture	Confused	Legal

Source: 1. Birdsall, 2000 and so on. 2. Kosals, 1998 and so on. 3. Kosals, 1998, Bäckman, 2000, and so on. 4. *Ibid*. 5. The new criminal law enacted in 1997, and so on. 6. *Ibid*.

3.2 An analysis of corruption from the government dimension

While Samples 1, 2, 3, and 4 can be called "socialistic corruption," Samples 5 and 6 can be named "modern corruption," which is based on modern bureaucracy. However, Sample 5 and 6 are also affected by the socialist system, which is characterized by the coalescence of political and economic power of officials, priority of the central plan, strictly vertical structure of the economy, and the progressing monopolization of the economy (Łoś, 1998). Therefore, it is of importance to pay heed to the extent of mutation and nature of corruption in the transformation process. From the point of view of the government dimension, a number of authors refer to the institutionalization of corruption in the Soviet era. For instance, Timofeev (2000) argues that in the Communist State, the Soviet administration has not only the face of a "doctrine state" but also "shadow relations" prevailed in economic, social, administrative, and lawful practices, which results in "institutionalization" of "shadow relations." He also thinks that planned distribution of production funds and labor reserves entails bribery, barter and so forth. He leads the conclusion that "institutional corruption" existed in the USSR. Thus, corruption can be regarded as an institutionalized system within Soviet society. It is possible to say that corruption in the USSR was structured through a chain of bribes.⁵⁾ In practical terms this meant that managers of factories had to make money to pay bribes to officials for inducing them to issue the needed permits for supplies, which resulted in utilizing corruption to save money. The most widespread means of obtaining cash was to authorize salary payments to workers for work they had not done and then to repeat the procedure in which money paid out by means of false payment orders was kicked back to the administration (Simis, 1982).

3.3 An analysis of corruption from the income dimension

Under the reality of socialism as it existed in the Soviet, consolidation and realignment of common income occurred. As Shleifer & Vishny did, it is possible to argue that an important reason for pervasive shortages in the socialist economy is self-interested behavior by the ministry bureaucrats who set the planned prices and output (Shleifer & Vishny, 1998). While under capitalism firms and their profits are owned privately and capitalist producers will always wish to collect "official" profits by charging higher "official" prices, under socialism most of these profits (common income) would accrue to the state treasury and the decision makers who determine the prices and output of firms do not keep any of these profits "officially." However, when there is a shortage of a good, potential customers try to obtain it by offering

bribes and favors to the bureaucrats and managers of firms. Therefore, it can be concluded that the redistribution system of income in socialism is per se the cause of corruption.

This view is similar to the opinion of Olson (2000). He states that market-contrary policies undermine law-abiding behavior and promote official corruption, because they create situations in which all of the parties involved have a common interest in evading the rules, keeping the evasion secret from the authorities, and corrupting the relevant officials. Market-contrary policies resulted in the coalescence of political and economic power under the one-party communist political system, the priority of plan, and the monopolization of the economy.⁶⁾

4. Mutation of corruption

4.1 An analysis of corruption from the government dimension

From the point of view of the government dimension, three factors are crucial in reviewing the mutation of corruption. First, changing the legislation concerned with the state regulations resulted in mutations in the extent and nature of corruption. As propounded by the World Bank, state capture set off widespread corruption during the transformation process. Although the Presidential Decree on January 29, 1992 that empowered anyone to sell anything at virtually any time changed the coverage of corruption dramatically, "watch dogs" frustrated by the transformation began to put a lid on so called organized crime associated with all business, identifying them as "acknowledged thieves" (*vory v zakone*) (Bäckman, 2000). This phenomenon is related to the spread of corruption in the providing of protection services. Second, a "negative heritage" from the socialistic state such as a weak judiciary system, less development of consciousness of rights, habitual orientation to "state interest" and "social ownership" by security agencies, and subordination of bureaucrats to the authorities inhibited the spread of corruption (Doklad, 1998). In addition, once corruption was widespread in the Soviet era, the "identification" problem could be solved easily in the transformation process (Varese, 2000). Third, foreign investors and foreign capitals deepened the foundations of corruption. As Wedel (1998) argues, the economic assistance of the United States to Russia through only the group run by Chubais made Chubais powerful, however, it also meant that his group became corrupt.

4.2 An analysis of corruption from the income dimension

From the point of view of the income dimension, dismantling the institutions and policies of a socialist economic system does not necessarily result in the birth of a market economy (Bernstam & Rabushka, 2001). According to Bernstam & Rabushka

(2001), historically, four strategies play an important role in the evolution of private income in history in the light of the experience of post-communist countries; (1) Breaking up the enterprise network and establishing separable public finance; (2) Creating a framework for separable private finance; (3) Assigning property rights based on private, internalized income; (4) Liberalizing product, labor, and capital markets, but only on the condition of internalization of income. In reality, the separation of public finance (common income) and private finance (private income) was not implemented through a number of subsidies such as tax privileges, tax arrears, budget offsets, and the like from the government. Bernstam & Rabushka argue that under the enterprise network of socialism, which has mutated from socialism and the inherited network of enterprises which took over fiscal and monetary power, enterprises owners and managers have open access to government and public income and socialize it through tax subsidies and cross-subsidies.⁷⁾ When the enterprise network exists, privatization opens more access for enterprises to common income, indeed opens direct enterprise access to public income. It means that property rights and ownership of enterprises provide privileged access to common income. This reality made the boundary between private and common income ambiguous. The ambiguity made it difficult to judge the legitimacy of the rules, which resulted in the spread of corruption from the point of view of the discipline of a market economy. As Gaddy & Ickes argue, the use of strategies that rely on relational capital under this ambiguity enabled enterprises in the virtual economy to survive without undertaking restructuring, which resulted in the ubiquity of corruption.

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- 1) Surveys about corruption are shown by Shiobara 2001.
- 2) See Shiobara 2001, pp. 8, 12 and 13.
- 3) Lustration, which was adopted in the Czech Republic, Poland, and Estonia, among other countries, prohibits former officials of the internal security apparatus and their informants from accepting public-sector employment (*Anticorruption*, 2000, p.30).
- 4) For example, speculation was punished by the clause of 154 of Criminal Code of the RSFSR (Łoś, 1998). Yeltsin issued a decree on January 29, 1992 that specifically empowered anyone to sell anything at virtually any time, with no permit (Reddaway & Glinski, 2001).
- 5) Ickes (2001) shows that stability in the bureaucracy under “Brezhnev-Communism”

resulted in an institutionalization of bribes and payoffs to the *nomenklatura*.

6) It is highly significant to ask why socialistic corruption diffused even under those who watch the watchers: the higher officials, party cadres, police, secret police, and other watchdogs. As for control by the information agency, the KGB (the Committee for State Security) and the OBKhSS (the Department for the Struggle against the Theft of Socialist Property) existed in the USSR. The OBKhSS belonged under the ministry of the interior (MVD) to guard against corruption. However, both organizations reported confidentially their investigations to their authorities, therefore, there were possibilities that authorities would hide them for political reasons (Montias & Rose-Ackerman, 1981). In addition, since the socialist system entailed paternalism, these organizations did not play their proper role.

7) Bernstam & Rabushka define socialism as socialization in the sense of predatory redistribution of output and income.

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Toshihiko SHIOBARA

Kochi University

Without an understanding of the concepts of 'continuity' or 'path dependence' in the socialist economy, we cannot understand why even now in Russia corruption diffuses throughout society. Although there are few surveys which approach the issue from the point of view of 'continuity' or 'path dependence,' in this article, the relationship between shadow economy and corruption under the period of transition is described. Then my view will be shown, discussing the existence of 'socialistic corruption.' The ubiquity of socialistic corruption in the USSR is one of the most important reasons why corruption also becomes widespread in Russia.