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### Amnesty the Oligarchs

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Oligarchs are often blamed for corruption in Russia. It is true that they have a habit of spending large amounts of money on "individualized government services," but the nature of corruption has changed radically in the post-Communist period, and overall corruption has undoubtedly declined.

That is evident from personal observations and from major enterprise surveys conducted by the European Bank for Reconstruction and Development in 1999 and 2002. Rather than just blaming oligarchs or government officials, we need to look at the supply of, and demand for, relevant public goods and services.

In the early 1990s, the main beneficiaries of bribes were the key regulatory agencies, the Fuel and Energy Ministry, the Foreign Economic Relations Ministry and the Central Bank. Today, none of these institutions is perceived as being particularly corrupt. All kinds of licenses and quotas for energy and foreign trade have been abolished. Officials in these agencies have little left to sell, and the demand from the private sector has faded. Deregulation is the quickest and best cure against corruption.

Privatization amounted to a big, one-time grab, which temporarily boosted corruption but then led to its reduction. Today, it is apparent how important privatization was for the decriminalization of the economy. Most state companies were sad stories of management theft with little or no consideration for the development of the enterprise or the well-being of their employees. Such problems remain in state or semi-state enterprises, while for the most part they are history in long privatized enterprises. While corruption was standard in Soviet enterprises, it is now mainly considered a plague of the bureaucracy. In hindsight, it is clear that it is much more important that enterprises were privatized than how they were privatized. The owners who make them succeed are more often than not the second or third owners following privatization.

Poland provides a sad contrast in this regard. Many large enterprises there are still state-owned, notably in the coal and steel industries, while their counterparts in Russia have been privatized. They continue to make losses, extract subsidies and their production is not taking off. Russia was evidently wise to sell off its large enterprises early regardless of the price. Poland is stuck in a huge corruption trap: State corporations are patently corrupt, and they corrupt and discredit every government that tries to manage them. Russia has managed to throw away this poisoned chalice, with only a few major enterprises remaining in state ownership.

Yet the major state-owned energy corporations pose a problem and should be privatized as soon as possible to mitigate corruption. The stock market greeted the recent Slavneft "auction" with relief because the most

important thing was that it took place. Privatization "at all costs" has ultimately reduced corruption in the Russian economy.

Alas, although deregulation and privatization have gone far, the oligarchs continue to spend huge amounts of money on the state. The largest sums seem to be spent on paying off extortioners from the federal authorities, financing national parties and gubernatorial election campaigns. These items are closely related, and it is often impossible to distinguish what is extortion and what is the bribery.

The fundamental problem is that the oligarchs lack secure property rights. Before each election, they have to fund political parties in order to secure their property rights for a few more years. The oligarchs typically fund several parties because some parties are honestly interested in securing property rights, while others extract tribute for leaving them alone.

At the regional level, property rights are undermined by discretionary gubernatorial powers over taxation and property. Norilsk Nickel beat Russian Aluminum in the Krasnoyarsk gubernatorial election in Krasnoyarsk, reportedly spending much more money on the election because it pays much more in taxes there than Russian Aluminum.

The current pre-election situation is telling. Politicians are focused on raising funds from oligarchs while ignoring electoral programs, party organization and voter mobilization because they depend more on oligarchs than on their voters.

Although the outcome of the elections appears evident, the oligarchs keep spending. They must nurture their relations with the governing party, yet are also anxious that pro-presidential parties not achieve a two-thirds majority in the State Duma, which would allow them to amend the Constitution. ("More than eight years of President Vladimir Putin would be too much of a good thing.")

The symbiotic relationship between political parties and the oligarchs is surprisingly transparent. Voters see it, and they are disgusted by the whole political system. This situation is reminiscent of unstable oligarchic democracies in Latin America.

Attacking the oligarchs only aggravates the problem. Whenever Putin criticizes them, their spending both on presidential parties and the opposition appears to rise. And no prohibition can constrain such powerful figures.

Paradoxically, to reduce corruption of the political system Putin needs to guarantee the oligarchs' property rights. Then they would feel less need to succumb to extortion or to pay parties to defend their property rights. The rational approach would be to legislate an ironclad guarantee of property rights starting from a certain date. A natural choice would be Jan. 1, 2000, when Putin came to power declaring that the rules of the game had changed. Such an amnesty would also revive the housing market and other property markets marred by challenges to property rights.

The national parties would face financial distress, which would force them to organize, formulate credible electoral programs and mobilize their voters, thereby strengthening democracy.