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Explaining Patterns of Corruption in the Russian Regions

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ABSTRACT: Corruption is one of the key problems facing the Russian state as it seeks to evolve out of its socialist past. Naturally, regional patterns of corruption exist across a country as large and diverse as the Russian Federation. To explain these variations, we analyze 2002 data from Transparency International and the Information for Democracy Foundation that provides the first effort to measure differences in incidence of corruption across 40 Russian regions. We find that corruption in Russia primarily is a structural problem, and not one related to its institutions. Within each region, the amount of corruption increases as the size of the regional economy grows, the per capita income decreases, and the population decreases. Russian policymakers can therefore work to reduce corruption by encouraging economic development outside of the key centers of Moscow and St. Petersburg. Because the data show that voter turnout also lowers corruption, policymakers can also fight corruption by fostering more political accountability in elections.

Corruption in Russia

Corruption is one of the key problems facing the Russian state as it seeks to evolve out of its socialist past. In the cross-national Corruption Perceptions Index prepared by Transparency International (TI), Russia ranked a lowly 86 out of 133 countries in 2003 and 71 out of 102 countries in 2002 (Transparency International, 2002 and 2003). The World Bank also ranks Russia in the bottom third of countries with a score of -0.90 in 2002 on its scale of -2.5 to 2.5 (Kaufmann et al., 2003). Freedom House's *Nations in Transit* also scores Russia low for corruption, giving it a rating of 5.75 in 2003 on its scale of 1-7, in which 7 is the worst (Freedom House, 2003).[1]

But such national level surveys provide little more than a superficial picture of a country as large and diverse as the Russian Federation. To make up for this shortcoming TI and the Information for Democracy Foundation (INDEM) conducted a survey of 40 regions in 2002 that provides the first effort to measure differences in the levels of corruption across the Russian regions (Transparency International, 2002). Though flawed in terms of methodology, the survey demonstrates that there is extensive variation at the regional level. Given this variation, some regions might point the way to reducing corruption in Russia and, for that reason alone, this unique dataset deserves greater analysis and attention.

The overall finding of differences in the levels of corruption across the regions raises several interesting research questions: What factors explain these differences? Would theories used to explain corruption in other contexts, such as southeast Asia, tell us something useful about Russia? How can Russia design an anti-corruption policy that is truly effective rather than simply promoting the interests of particular politicians at election time?

Types of Business-State Relations

Corruption is the use of public office for private gain. While corruption is one of the key problems defining Russian development, it is only one of many possible forms of relations between business and the state. Conceptually, these relations can range from socially productive

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[1] In "A Normal Country," Shleifer and Treisman argue that corruption in Russia is about what one would expect for a country at its level of political and economic development. However, they cite existing evidence selectively to make their point and lump together various kinds of corruption at the political and day-to-day level.

arrangements to pathological outcomes (Maxfield and Schneider 1997). Effective and useful relations between business and government officials are typified, for example, by rationalizations in Germany's declining industries negotiated through corporatist bargaining or by strategic investments in Japan's economy arranged in consultations between industry and the Ministry of Industry, Trade and Investment (Katzenstein 1978). Harmful relations, on the other hand, are typified by secretive, corrupt exchanges in what della Porta and Vannucci refer to as a black market for political rents (della Porta and Vannucci 1999). While relations between business and government may exhibit a dominant pattern in a country, these relations can vary from one sector or ministry to another and can change over time.

Theories to Explain Variations in Corruption Across Russian Regions

A number of theories may explain the variation in corruption across the Russian regions. For analytical clarity, we divide these theories into different families of causation. The first group of theories is institutional. Theories in this family focus on such variables as the coherence of the state, the centralization of the business sector, and the ethnic composition of sub-national governments resulting from the federal system.

Another group of theories looks at social issues. In this group, theory suggests that urbanization may explain higher levels of corruption because it weakens the social control of family and religion. Another variable in this family is social capital, higher levels of which may lead to lower corruption levels. In Russia, divergent agricultural systems generated a more market and network-intensive northern belt, which may have generated higher levels of social capital, and a patriarchal southern belt, which may have generated lower levels of social capital.

A third family of variables emphasizes the role of politics. Here such measures as voter turnout and the level of media freedom may offer insights into the variation in corruption levels across Russian regions.

A final family of variables focuses on structural issues. Cross national studies of corruption emphasize the importance of such variables as population size, gross regional product per capita, gross regional product, and the presence of natural resources in explaining different levels of corruption. In the following sections, we will explain how to apply these general theories to the Russian context.

Institutional Theories

The first theory we seek to apply to Russia was not developed with Russia's specific features in mind. Using it in the Russian context thus provides us with a method of testing how well it travels from the region it was developed to explain, namely southeast Asia, to other parts of the world. Potentially, the theory will be useful in illuminating what is happening in Russia. However, the Russian experience could prove to be different than what the theory would predict and could therefore lead to a revision or extension of the theory.

David Kang's *Crony Capitalism* seeks to explain different levels of corruption in South Korea and the Philippines by classifying business-government relations in each country by how concentrated or dispersed the business sector is, and how coherent or fractured the state is. He argues that countries characterized by state capture (fractured state, concentrated business community) or a predatory state (coherent state, dispersed business sector) have the highest levels of corruption[2], countries characterized by a competitive market (fractured state, dispersed business) have the lowest levels of corruption, and countries characterized as mutual hostages (coherent states, concentrated business) have corruption levels that fall somewhere in between. (See Figure 1)

Table 1 Types of Corrupt Relationships (level of corruption)

	Coherent State	Fractured State
Concentrated Business	Mutual Hostages (medium)	State Capture (high)
Dispersed Business	Predatory State (high)	Competitive Market (low)

It should be noted, however, that other outcomes are possible than the four corruption scenarios predicted by the model. For example, a coherent state combined with a dispersed business sector could lead to a developmental, rather than a "predatory" state, if the political leader chose to use the abilities of the state to ensure the peaceful development of all business groups. The model simply suggests that this outcome is less likely.

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[2] For a discussion of the negative consequences of state capture in the Russian regions, see (Slinko, Yakovlev, Zhuravskaya, 2003)

Not surprisingly, it is difficult to apply these simplified characterizations to countries or regions that are extremely complicated. Even Kang had trouble applying his own criteria to the case of Taiwan in his book. Recognizing such limitations, we try to apply this analysis to Russia at both the national and regional levels.

Following Kang, "a state is coherent if it can formulate preferences independent of social influences and if political leaders have internal control over their bureaucrats."[3] The most coherent situations exist when political leaders have full control over their political organizations and state employees so they can use domestic politics to ensure their continued rule. At the other end of the spectrum, the most fractured situation occurs when "leaders survive only tenuously, when they engage in constant conflict with political organizations over the form and content of the state and bureaucrats can play off 'multiple principles' to their own advantage. At the heart is the question of control."

Over the more than ten years since the collapse of the Soviet Union, the Russian state at the federal level has evolved from one that was largely fractured to one that is now much more coherent. President Vladimir Putin is the legitimately elected president, who maintains consistently high public opinion ratings. He completely dominates his political party, United Russia, and has established a dominant majority within both houses of the country's bicameral legislature. Within some limits, he has extensive influence over the country's regional leaders. The initiatives for key reforms, such as overhauling the country's federal system or the budget and tax codes, come from the president and his key allies. In these cases, the leadership acts on its party and society rather than responding to them.[4]

Much more controversial is whether Putin actually controls his bureaucracy. Consistently over time, there seem to be two factions working within the bureaucracy in pursuit of their own interests: on one hand is an alliance of the law enforcement, security agencies, and military usually lumped together as the "power ministries"; on the other is a group associated with economic reform. Observers differ on the degree to which one or the other of these groups is in control and the extent to which Putin can stand above them and regulate their conflict or is subject to their demands. Over time the relative power of the two groups varies, as does their influence over the bureaucracy.

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[3] Kang, 13-14

[4] For overviews of the early part of Putin's term, see Shevtsova (2003) and Herspring (2003).

Regardless of the state of the battle between these factions, there is considerable agency slack between the Russian leader and his bureaucrats. Some even argue that the bureaucracy controls everything (Kabanov et al, 2003).[5] Decisions of the federal government are notoriously unenforced across the country's great expanse. Powerful businessmen and regional politicians are often able to purchase or influence federal bureaucrats to do their bidding especially since the Russian civil service does not use examinations or other measures of professional merit to fill vacancies. Some innovative politicians, such as Presidential Envoy to the Volga Federal District Sergei Kirienko, have sought to implement such a system in parts of the federal bureaucracy, but the method has not caught on or been generally implemented.

Kang defines a strong, concentrated business sector as one including diversified business groups, "comprised of well-organized firms that cover many sectors of the economy." The companies may have subsidiaries that are import competing and others that are export oriented, and may have agricultural and urban firms (Kang, 1999, 14). Following Kang, these larger business groups are more likely to attempt to influence government policy and to wield political influence.

Russia's business sector fits Kang's depiction of concentration reasonably well. Russia's business groups evolved out of the chaos of the early 1990s and gained control of lucrative state assets in 1995 and 1996 in exchange for helping Yeltsin win a second term as president (Hoffman, 2002). Although the Russian business community was considerably weakened by the 1998 financial crisis in the country, the business sector is now even more concentrated than South Korea's was in the period Kang studied. Kang notes that in South Korea in 1975, the five largest private conglomerates accounted for over 7 percent of the entire economy in terms of sales, with the 20 largest conglomerates comprising almost 15 percent of the economy. In Russia in 2003, sales by the five largest conglomerates accounted for 12.7 percent of the GDP.[6] Measuring the market value of the top five private firms (Yukos, LUKoil, Surgutneftegaz, Sibneft, Norilsk Nikel) as a proportion of GDP shows that these firms are worth 24.4 percent of

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[5] See discussions in Reddaway (2002) and chapters by Igor Klyamkin and Marie Mendras in Mendras (2003).
[6] Calculated from the rankings of the 200 largest companies by sales produced by *Expert*, September 29, 2003 (www.expert.ru/expert/ratings/exp200/exp2003/spisok1.htm) and 2002 GDP estimate at the CSIS Russia/Eurasia Program Website (www.csis.org/ruseura/rus_econ0306.htm). The five largest companies were LUKoil, Yukos, Surgutneftegaz, Tyumen Oil Company, and Sibneft.

Russia's annual output. The largest firms are concentrated in oil and metals, but they also have interests in banking, car manufacturing, and increasingly in agricultural production.[7]

Additionally, since the beginning of the Putin era, the leaders of all of Russia's top businesses are members of the Russian Union of Industrialists and Entrepreneurs (RSPP). Putin effectively organized this group so that it would be easier for him to deal with the business community. During 2000-2003, he met with the organization a few times a year to discuss key issues relating to the economy. While the impetus for the organization came largely from the state, it provides the businessmen with a way to express their collective voice. It also gives them access to the president that they might not have otherwise.

Although Russia does not fit neatly into any one of Kang's four categories, since the early 1990s, it has evolved from a situation of state capture by business during the Yeltsin era to one of mutual hostages four years into Putin's rule. The current Russian situation fits into the mutual hostages category because a coherent state under Putin is facing a heavily concentrated business community.

Putin started his relationship with the business community as president on the basis of an unwritten deal. He essentially promised not to reevaluate the often shady privatizations that took place in the 1990s, in exchange for efforts by the businessmen to invest their profits in Russian industry rather than sending them abroad and agreeing to stay out of the political sphere.

This deal stayed in effect from the summer of 2000 through the summer of 2003, when the Kremlin launched its campaign against the Yukos oil company and its leader Mikhail Khodorkovsky, Russia's richest businessman. In the months preceding his arrest, Khodorkovsky had made contributions to Russia's opposition parties and had hinted that he might run for president himself. The Kremlin arrested Khodorkovsky in an attempt to block his rise as an independent politician. By the end of 2003, Putin was threatening the business community claiming that he might begin reversing all privatizations that were conducted in violation of the law, a vague threat that could be applied to anyone. Moreover, despite its concentration of wealth, the business community demonstrated its weakness when the RSPP, the most high profile business association in Russia, did not step up to Khodorkovsky's defense.

Nevertheless, despite the extent of Putin's crackdown on Yukos, the Kremlin is unlikely to take on the business community as a whole. The heavy concentration of the business

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[7] For additional information on the role of big business in the Russian economy, see Dynkin, 2004.

community means that an attack on it could lead to an economic downturn and political instability. In fact, business is now well represented in the parliament following the State Duma elections of December 2003 and Putin's reform of the upper house Federation Council. Despite the exceptional case of Yukos, business plays a powerful role in Russian politics and sets clear limits on what the state can do.

Additionally, the designation of Russia as a mutual hostages situation suggests that Russia may be able to develop economically even though it has relatively high levels of corruption. South Korea was able to follow this path, even though observers often found it counterintuitive (Schleifer and Vishny, 1993).

Characterizing the state-business relationship in the Russian regions is a much more complicated task than doing it for the country as a whole. It is extremely difficult to obtain consistent data across regions. The kind of information available at the national level is simply not available at the regional level.

Nevertheless, to compare state cohesiveness or fracturation across a wide number of regions, it is possible to employ a broad-gauge comparative technique, which counts the number of veto players. Andrew MacIntyre used veto players to study government effectiveness in southeast Asia. He defined such players as "an individual or collective actor that has the institutionalized power to defeat a proposed law by withholding formal approval." (MacIntyre, 2003, p. 37) He found a variety of systems across the countries he studied: Indonesia with one veto player in the form of the president and Malaysia with one veto player in the form of a particular political party had concentrated political systems, whereas the Philippines with three veto players and Thailand with six had fragmented political systems.

To use this technique in the Russian regions, the definition must be relaxed a little. Rather than focusing on formal legislation, which is not always crucial to governance in Russia, it makes more sense to concentrate on the power of the executive. Operationally, then, the question becomes: can the governor freely implement his policies, whether in the terms of executive decrees or regional legislation or are there veto players that can block his actions? Using this approach makes it possible to classify the 40 regions we examine as having either a "coherent" or "fractured" state. In this context, a coherent state is one where the governor does not face any serious veto players, while a fractured one is where power is more widely distributed and the governor faces opposition to his endeavors.

Making such judgments requires gathering extensive amounts of information on the regions and distilling it in a concise way to place a region in one category or the other. Such information can be found in the back issues of the Russian Regional Report, dating to 1996, the summary volume *The Republics and Regions of the Russian Federation: A Guide to Politics, Policies, and Leaders* (Orttung, 2000), and the rankings of regional leaders compiled by Rostislav Turovskii and posted at www.politcom.ru

Thus, for example, it is possible to categorize Russia's major cities of Moscow and St. Petersburg, which also have the status of being two of Russia's 89 constituent regions, in terms of the number of veto players. In Moscow, there is only one veto player in the person of the mayor since he does not have any difficulty implementing his policies and the city council largely serves as a rubber stamp. Moscow is labeled "coherent." The St. Petersburg governor, on the other hand, faces a strong, independent legislature that can effectively block his or her actions. In 2003 Governor Vladimir Yakovlev was unable to force the city legislature to rewrite the city charter so that he could stand for a third term. So, the region is labeled "fractured" since there are at least two veto players in the city.

Moving to the economic sphere, we defined the regional business communities as concentrated if there are several big companies operating in the region. We labeled them dispersed where only small and generally local companies were present (Orttung, 2004). While Russia at the national level has evolved from state capture to mutual hostages, the situation in the regions varies considerably. Of the 40 regions we examined 13 fell into the mutual hostages category and four fell into the competitive market category. The others were either defined by state capture or predatory state.

Table 2 Business-State Relations in 40 Russian Regions

	Coherent State	Fractured State
Concentrated Business	**Mutual Hostages** Arkhangelsk Oblast Belgorod Oblast Chelyabinsk Oblast Kemerovo Oblast Krasnodar Krai Moscow City Novgorod Oblast Omsk Oblast	**State Capture** Altai Krai Krasnoyarsk Krai Kurgan Oblast Leningrad Oblast Moscow Oblast Nizhnii Novgorod Oblast Novosibirsk Oblast Perm Oblast

	Rostov Oblast Saratov Oblast Tomsk Oblast Tula Oblast Yaroslavl Oblast	Primorskii Krai Ryazan Oblast St. Petersburg Samara Oblast Stavropol Krai Sverdlovsk Oblast Tyumen Oblast Ulyanovsk Oblast Volgograd Oblast
Dispersed Business	**Predatory State** Bashkortostan Karelia Republic Khabarovsk Krai Pskov Oblast Tatarstan Republic Voronezh Oblast	**Competitive Market** Amur Oblast Tambov Oblast Tver Oblast Udmurtia Oblast

A second institutional variable that may affect corruption levels is the ethnic dimension of the country's federal structure. In particular, 21 of Russia's 89 constituent units are designated as "republics" specifically established for a minority ethnic group, while others simply are defined territorially and do not favor any particular group. One would expect the ethnically defined regions to have higher levels of corruption since they are based on ethnic set asides that purposely benefit one ethnic group over everyone else (Hale 2003). Observers point out that the ethnically defined regions typically have more authoritarian regimes than do the territorially defined ones.

We coded the regions for whether they were republics or not in order to determine if there was any correlation between their federal status and the levels of corruption.

Social Theories

Social issues constitute another possible explanation for variation in corruption levels. Putnam (1993) found that northern Italy was better governed than southern Italy because its citizens had much denser networks of linkages and trust and were more likely to be involved in social groups than their southern compatriots. He traced the differences far back in Italian history.

Northern and southern Russia have different climates making possible different kinds of agricultural production on their territory. These variations led to the practice of different types of serfdom, which in turn created totally different types of societies.

During the 18th century, the fertile south, with its Black Earth lands, became increasingly distinct from the more barren north (Riasanovsky, 1984, 277-8). The *barshchina* style of serfdom, which largely resembled slavery, developed in the south. The serfs farmed their masters' land, performed other tasks for him, and worked their own plots. In the north, the *obrok* practice evolved as the soil could not support extensive farming so the peasants had to seek others forms of employment such as working as craftsmen and artisans to pay off their obligations to the landlord and the state. Where no work was available the peasants would leave their home to find jobs and they often joined associations to work as carpenters or construction crews.

Over time the different forms of agriculture created diverging cultures that continue to mark society in the current era. One would expect greater levels of corruption in the more patriarchal south where social stratification was more extreme and social capital was lower. Likewise, one would expect less corruption in the north as denser networks of exchange developed in the more market-intensive systems. Higher levels of trust were necessary in the north in order to support its more complex economy. It is possible to code the regions along the lines of their serfdom and regress them against the numbers reported by Transparency International and INDEM. The TI/INDEM researchers anecdotally noted a correlation in their findings with higher levels of corruption in the "southern belt" stretching from Rostov Oblast to the Trans-Volga area (Grigorian, 2003).

Urbanization provides another social explanation for divergent corruption levels. As Schlesinger and Meier note, "urban environments loosen the social controls of family and religion and at the same time concentrate government programs and resources" (Schlesinger and Meier 2003, 4). With weaker social controls and greater opportunities for corruption, theory suggests that urbanization would increase corruption.

Another way of explaining the difference in levels of corruption is through the different kinds of political regimes - with closed regimes generally being more corrupt than open ones. As stressed by Rose-Ackerman, "Combining an informed and concerned electorate with a political process that regularly produces closely contested elections leads to a world in which corruption is limited by competition" (Rose-Ackerman 1978, 213). One way to measure political competition is through voter turnout. When turnout is higher, more citizens are exercising their check on leaders and bolstering this mechanism of vertical accountability.

Voter turnout is a better indicator of political accountability, however, where there are meaningful choices among political candidates and where voters are informed and not subject to intimidation. To measure voter turnout, we relied on the regional turnout figures for the 1999 State Duma elections (Central Electoral Commission, 2000). In this race, voters chose between the group around the then recently appointed prime minister Vladimir Putin and the group around his main opponents, Moscow Mayor Yury Luzhkov and former Prime Minister Yevgeny Primakov.

A related measure of political competition is freedom of the press. Cross nationally, countries with freer presses are less likely to face extensive corruption because the free press provides greater accountability. The Free Media Institute Free Media Index provides a measure of press freedom for each region in Russia, which can be analyzed in conjunction with the corruption data (www.freepress.ru).

One major methodological problem here, though, is that working with media freedom data in Russian conditions is extremely tricky. Ordinarily, one would expect a freer media to be strongly correlated with a less corrupt society since the media is able to provide greater social accountability. However, in an authoritarian system a state controlled media may be able to produce corruption perception survey results that suggest that there is less perceived corruption. In authoritarian societies, the political leaders use the media to signal to the population what they should say and think about their own society. The media would naturally report the official claim that there is no corruption and individuals, when confronted with a questionnaire presented by a

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stranger, would be likely to repeat the official line out of fear of being punished for deviating from the leadership's wishes.

Thus, in Russia it would be logical to find low levels of perceived corruption in regions with tightly controlled media. Likewise, one might also find high levels of perceived corruption in regions with more free media, since in those regions the public is more informed about the corruption in the region, but might not be in a strong enough position to do something about it.

Increasingly, the Russian federal press is coming under state control and is less free to provide real oversight of government policymaking. In 2003, Freedom House moved its evaluation of the Russian media from "partly free" to "not free" because the Kremlin took control of the country's three national television networks (www.freedomhouse.org/research/pressurvey.htm)

Governors often exercise control over regional media in the same way that the Kremlin manages to control the national press. However, at the regional level, there are sometimes competing business interests that are able to fund alternative media. While none of the resulting media outlets strive for unbiased objectivity, they at least provide alternative points of view, allowing their audience access to a variety of opinions.

Structural Theories

Finally, the literature on corruption suggests correlations between corruption and such structural variables as the size of the population and the economy, and the extent of economic development. We included variables for population size (Treisman 2000b), gross regional product (GRP), and the presence of natural resources. The logic here is that the more people, the larger the economy, and the greater the abundance of resources, the greater are the opportunities for corruption. On the other hand, the higher the levels of economic development (GRP/capita) (Tresiman 2000a, 429), the lower the incentive to resort to corruption and the greater the resources available for the state's administrative capacity to prevent and punish it. In short, we would expect to see the amount of corruption increase in larger population centers, but decrease as the level of economic development increased.

Data to Test the Theories

We use the data released by Transparency International and the Information for Democracy Foundation (INDEM) on October 9, 2002 as an indicator of corruption in the 40 regions that they examined. Though flawed, the TI/INDEM data is the best available in judging sub-national levels of corruption in Russia.[8] The organizations have devoted considerable resources to this research and plan to conduct future studies.[9] Therefore it is worthwhile looking at the current numbers and identifying ways to improve them.

First, the TI surveys are based partially on people's perceptions of corruption.[10] Beyond the well-known problems inherent in this kind of research, there are problems specific to the Russian regions. Bashkortostan, which is generally described in the media as one of the most authoritarian republics, topped the TI/INDEM list as the cleanest region with a 0.000 perceived index of corruption. Since Bashkortostan has an extremely authoritarian leadership and a state controlled media, which rarely, if ever, discusses the problem of corruption in the region, people either are unaware of the problem, or, more likely, afraid to mention it to survey takers.

Likewise, the republic of Karelia, in Russia's northwest, has one of the highest levels of perceived corruption in the survey, though one would not expect that to be true. Here, the problem is that the region borders with Finland, so the respondents naturally compare themselves with their foreign neighbors, concluding that they must have a relatively large amount of corruption since their local situation seems much worse than that in Finland, though it could objectively be much better than the situation in Bashkortostan.

Second, there is an extremely low level of correlation (.33) between the composite TI/Indem index measuring people's overall perception of the level of corruption and the index relying on experienced-based information, which asks people about how much money they pay in bribes. The fact that there is not greater connection between the perceived level of corruption and the more objective measure of the amount of corruption suggests that there is a lot of randomness in the data. Because of the greater objectivity of the experience-based information,

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[8] The data has already had a useful impact in Russia, where it has drawn analytical attention to the issue of corruption among policy-makers and the public. The regional data angered some governors to the extent that they destroyed the printrun of the newspapers containing them, according to INDEM director Satarov (Satarov, 2003).

[9] A representative of INDEM confided to one of the authors that the organization had conducted a second survey of corruption in the regions, but was hesitant to publish the results because they poorly correlated to the first study.

[10] For a critical analysis of using perception based data in regard to the Russian regions, see Luneev 2003.

we use the survey's index of the amount of regional corruption as a percentage of GRP in our regression analyses.

Third, a further problem was that the interviewers did not poll enough people to produce meaningful distinctions between the 40 regions. The survey polled 5,666 citizens and 1,838 representatives of small and medium-sized business in the 40 regions. Although the researchers claimed that this sample size was unprecedented for this type of research, it was not enough to produce scientifically valid results to make regional distinctions.

The Results

The data give strong support for the structural explanations of corruption. (See Figure 1.) Three of the four structural variables are statistically significant, and they can alone explain 42.5 percent of the variation in corruption. The size of the economy and the level of development have almost an equal and opposite impact on corruption, in the direction predicted by the theory, with levels of corruption rising with the size of the economy and decreasing as the level of development rises. On the other hand, the population variable has a negative correlation with corruption levels, suggesting that Russia's less populated regions have more corruption. Most likely this is so because the smaller areas in Russia tend to be governed by a tightly-knit political and economic elite that works hard to foster a closed system that blocks any encroachments by outside actors (Solanko, 2003, and Shleifer and Vishny, 615).

After these three structural variables, two other variables are almost statistically significant and explain more of the variation in corruption levels than the rest of the variables. Urbanization has a standardized coefficient of .372 and voter turnout has a standardized coefficient of -.278, both in the direction predicted by the theory, namely corruption rises with increased urbanization and falls with higher voter turnout.[11]

The other variables do not approach statistical significance or have substantial standardized coefficients. These data suggest that institutional variables and social variables do not explain much of the variation in corruption levels.

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[11] In regions like Bashkortostan, turnout is unusually high because the authoritarian regime uses its resources to make sure people vote, but in these regions levels of perceived corruption tend to be low, so the region still fits our model. However, in these exceptional cases, the explanation is not that higher participation reduces corruption, but that authoritarian regimes can artificially increase voter turnout and reduce perceived levels of corruption.

Table 3 Regression Results explaining Amount of Corruption

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.873(a)	.763	.605	.194521

a Predictors: (Constant) Log GRP, LogGRPcp, LogPopult, Natural Resources, Urbanization, Serfdom, Duma Turnout, Media Freedom, Pattern, Federal Structure

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.875	2.724		2.524	.023
	Log GRP	.533	.110	1.554	4.848	.000
	LogGRPcp	-2.924	.701	-1.534	-4.174	.001
	LogPopult	-.421	.186	-.509	-2.265	.039
	Natural Resources	.002	.003	.153	.754	.463
	Urbanization	.010	.006	.372	1.755	.100
	Serfdom	.039	.104	.064	.371	.716
	Duma Turnout	-.016	.009	-.278	-1.683	.113
	Media Freedom	-.010	.010	-.248	-1.030	.319
	Pattern	-.003	.063	-.009	-.049	.962
	Federal Structure	-.015	.196	-.016	-.079	.938

a Dependent Variable: Amount of Corruption

Conclusions and Implications for Anti-Corruption Policy

The findings of this paper have clear implications for how Russia should address its corruption problem. The clearest message from the analysis is that corruption in Russia is a structural problem, not one related to its institutions. Within each region, the amount of corruption increases as the size of the regional economy grows, the per capita income decreases, and the population decreases.

Corruption is thus deeply embedded in the Russian economy and may not be affected by institutional efforts to eradicate it. By focusing enormous attention on such business-state relations problems as the fate of Khodorkovsky and his Yukos company, western politicians, the

popular press, and some academic observers are missing the real story about the pervasive corruption inherent in the system. Structural forms of corruption are not greatly affected by the fate of one businessman or the Kremlin's current political strategy.

However, the situation is not completely bleak, as the data here also point to ways to address Russia's corruption problem. Since the level of corruption seems to drop as regions develop economically, one clear implication is that Russia can reduce corruption by encouraging economic development outside of the key centers of Moscow and St. Petersburg. Unfortunately, the trend line is not optimistic here as "regional inequality increased from 1992 through 1998, dropped after the crisis of August 1998, and has on balance increased since 1999, but without a clear trend," according to Economist Philip Hanson (Hanson, forthcoming). A greater focus on regional development could have a beneficial impact by reducing levels of corruption.

Additionally, the data strongly suggest that higher levels of political activism on the part of the population, particularly holding politicians accountable at the ballot box, will help cut corruption levels. Here too, unfortunately, the trend line is not particularly encouraging. After reaching a high of 64.4 percent in 1995, turnout rates for the State Duma elections fell to 61.8 percent in 1999 and then dropped further to 55.5 percent in 2003, returning almost to the level of 1993 (54.4), when the elections were held shortly after Yeltsin sent in the tanks against Russia's former parliament. The enormous use by incumbents of official resources to shape election results is turning off Russian voters and giving people the sense that their input into the electoral process is pointless.

Even though President Vladimir Putin set up a presidential commission to combat corruption on November 24, 2003, his efforts to address this issue will have little impact as long as his administration does not focus more on regional development and ensuring the sanctity of the voting process. Current Russian policy is not only not aimed at reducing corruption in a real way, it is also undermining the very forces that could help reduce corruption.

Our application of institutional theories such as the one laid out in Kang's *Crony Capitalism* developed to explain corruption and development in South Korea and the Philippines provide some interesting insights into the Russian situation. Most importantly, the comparison suggests that the Russian state cannot go too far in attacking the business community because Russian big business is highly concentrated. An all-out attack by the state against business would

have harmful political and economic consequences for Russia. Putin and Russia would pay a high price if he did follow such an offensive strategy.

Unfortunately, however, Kang's style of analysis did not produce significant results in explaining the variation in corruption across the Russian regions as measured by the TI/Indem survey. Perhaps future studies will be able to show how Russian institutions, such as the business-state relationship, are related to corruption. This analysis was not able to demonstrate such a link.

Appendix 1

Sources for Political Evaluations in Table 2

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