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# Corruption has laid waste to the Russian economy

By Sergei Guriev

Once growth is gone, territorial expansion is an authoritarian regime's tool of choice, says Sergei Guriev

Russia's annexation of Crimea came as a great surprise. After all, [Russia](#) was long thought to be a "normal" developing country. True, it was governed by an undemocratic regime – but it was well on its way to bridging the gap with the west.

However, what happened in Crimea is anything but "normal". The last country to annex a neighbour's territory was Iraq, which took over Kuwait in 1990. Russia is certainly not Saddam Hussein's Iraq. But it stands out in one respect – it is a high-income country that is also very corrupt. According to Worldwide Governance Indicators, Russia ranks among the top fifth of most corrupt countries – on a par with far poorer parts of the world.

For many years corruption was perceived to be a domestic problem that Russians should be left to sort out by themselves. Western leaders also accepted Russian corruption for a more selfish reason. When money embezzled by corrupt officials was spirited out of Russia and placed in Swiss bank accounts or used to buy penthouses in Chelsea, western governments drew reassurance from the fact that powerful people in Moscow had a strong interest in maintaining a peaceful relationship with the west. In a way, corruption was thought to make the Russian elite [more accountable to the west](#).

That was a mistake – and a large one, for Russian corruption turned out to be the root cause of the crisis in Crimea. Graft has laid waste to the Russian economy. And once economic growth is gone, territorial expansion is an authoritarian regime's tool of choice for bolstering its popularity and holding on to power.

In Russia, the social compact of the 2000s was based on economic growth of 7 per cent a year. Citizens were happy with a government that provided substantial material benefits, even if it curtailed democratic freedoms. This was supposed to last. When Vladimir Putin took up the presidency for the second time in 2012, he promised to increase government spending – pledges that were premised on projected growth of between 5 and 6 per cent a year.

But this social compact is no longer feasible. Last year growth slowed to 1.3 per cent. Independent forecasters expect the economy to shrink in the first two quarters of 2014, as does the World Bank.

Why has growth disappeared? Since all previous sources of growth – cheap labour, growing commodity prices, expansion of consumer credit – have already been exhausted, further growth would require incentives for investment. But that requires protection of property rights and enforcement of contracts – exactly what corruption in government and the judiciary undermines. Even before Crimea, [investors were](#)

voting with their feet. Investment suffered. Russian stocks were trading at a 50 per cent discount to other emerging markets.

Having driven the economy into recession, the Russian elite has to find a new way to stay in power. For an authoritarian regime that is always a difficult task, requiring money, repression and propaganda.

Recession means Russia's government can no longer use money to buy public acceptance. Repression and propaganda have to take up the slack. In these circumstances, nothing could be more helpful than a small and victorious military adventure. Tangible victories – no matter how small or how costly – boost the ruler's popularity. It is not surprising that Mr Putin's approval ratings now stand at 80 per cent.

Russia's corruption can no longer be considered to have the salubrious effect of keeping the elite in check. On the contrary, it has spawned an aggressive foreign policy to which western leaders are now struggling to respond. Russian corruption has indeed become a threat to global security.

The country's government has always been reluctant to investigate corruption on its own territory. Russian anti-corruption activists fight an uphill battle. Other governments can and should help to locate and freeze corrupt officials' foreign assets. That will undermine support for Mr Putin within Russia's ruling class – and support for the elite among the general public. Both will certainly contribute to the arrival of a new, democratic – and thus peaceful – Russia.

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