

Small Companies Are Key to Putin's Future

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No sooner has Putin declared his intention to return to the presidency than the prediction game has begun. It is clear that Putin's popularity depends on continued economic growth, but which Putin will we see in 2012 and beyond?

Will it be the Putin of the second half of the 2000s, who championed state enterprises, allowed cronies to enrich themselves, and presided over the second show trial of former Yukos CEO Mikhail Khodorkovsky's imprisonment? Or will it be the Putin of the early 2000s, who brought stability to the marketplace, established a liberal tax system and introduced regulatory reforms to improve the business climate?

Sadly, unless Putin reins in lower-level government officials, it will not matter which Putin shows up. Most firms do not fear high-profile Yukos-style raids. They instead worry about bribe-seeking petty inspectors shutting them down or about corrupt law enforcement agents who threaten entrepreneurs with jail time for failing to make protection payments.

Putin has already tried to take on the bureaucracy, and he failed. In the early 2000s, laws were passed simplifying the registration of new businesses, deregulating licensing and providing checks on excessive inspections.✘ Business associations that represent small and midsize businesses, such as Opora, received encouragement from the top levels of government to challenge bureaucratic malfeasance. Yet a decade later, many entrepreneurs still find bureaucrats to be one of the most stubborn obstacles to doing business.

In the West, the combination of a free media, watchdog organizations and democratic checks and balances provides leverage against bureaucratic corruption. But in Russia, Putin has tried to build liberalism in the economic sphere while stifling liberalism in the political sphere.

For sustainable growth, a radical solution is needed. Perhaps Putin could borrow from the Chinese playbook and link lower-level officials' political advancement to economic growth in regions under their control. Putin could, for example, reward officials' successful implementation of anti-corruption reforms with advancement within United Russia or promotion within the federal bureaucracy.

There is no easy solution. But if Putin does not find a way to put a leash on corrupt officials, the business sector, particularly small and midsize companies, will never be able to develop. In the end, the future of Russia's economy, and hence Putin's regime, will depend precisely on the success and growth of these businesses.

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