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Corruption Organically Redistributes Wealth

By Boris Kagarlitsky

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The relatively strong growth rates that the Russian economy has enjoyed in recent years stand in marked contrast to the acute crisis in the European Union. This is largely due to high oil prices and the fact that recent droughts that caused global grain shortages have resulted in fewer losses to Russian crops than in other countries.

Nonetheless, Russia's continued economic growth is puzzling to many experts because it directly contradicts the typical view of the liberal media that rampant corruption and the state's excessive control over the economy inhibit economic growth. But in reality, investors will always put their money into projects that produce profits, regardless of how corrupt the country is.

In fact, bribing officials is a very common business practice. Corruption has often gone hand in hand with economic growth. This was true of Asian countries, 19th-century Europe and the United States of the late 19th and early 20th centuries.

Corruption does not stimulate growth, of course, but the problems it causes are more social and political in nature than economic. It is a form of spontaneous redistribution of resources that works in organic symbiosis with the market. The opposite is also true: Successful anti-corruption measures often dampen the market, as happened in South Korea in the early 1970s.

Russia is by far not the worst country in terms of state intervention in the economy and the amount of property owned by the government. China, for example, has much greater state intervention and ownership and yet has much higher growth rates than Russia. Government intervention in capitalist systems acts as a powerful stimulus to economic growth, but the effectiveness of the stimulus depends on the quality of the government itself — a quality that is woefully lacking in Russia.

The liberal mantras are of little help in understanding the actual problems involved. Growth is immediately associated with high oil prices, but if there are no societal mechanisms for maintaining demand, no amount of petrodollars can help.

One of the major causes for the economic growth in the 2000s was the fact that Russia did not belong to the World Trade Organization. That allowed the government to support domestic industry and agriculture with restrictive protectionist measures that came at a low budgetary cost. Foreign companies that wanted a presence on the Russian market were forced to invest in local production.

The main question now is whether domestic industry will survive the shock associated with Russia's entry into the WTO. Leading Western economists, including Nouriel Roubini, believe Russian industry will not withstand that shock, but only the coming months will show whether he is right.

Ideally, growth in domestic industry will compensate for a loss of income from lower oil prices. Lowering the value of the ruble will lead to a reduction in imports and an increase in the competitiveness of domestic goods. Under these circumstances, the crisis might prove to be not only a test for Russia but also its salvation.

In any case, Russia is at a historic turning point. It will be impossible to maintain the previous growth using the same measures that worked in the 2000s.

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