The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

The World's Largest Money Launderer

By Vladimir Ryzhkov

April 07, 2013



President Vladimir Putin is continuing his program of "nationalizing the elite," bringing them further under his control. With this goal in mind, Putin signed two decrees in recent days, one mandating that officials report their incomes and expenses and another requiring that they declare all foreign assets. The laws, which go into force on July 1, will significantly change the rules of the game for the country's political elite.

By July 1, all State Duma deputies and Federation Council members, senior officials of the Central Bank and pension fund, Cabinet members, state corporation heads and top officials in the Prosecutor General's Office must submit new income declarations for 2012. They need to list all bank accounts and assets belonging to them, their spouses and children under 18.

The government officials' major expenditures made in 2012, such as real estate and automobiles, must be declared, but large-scale purchases acquired in previous years will be left untouched.

What's more, it will be fairly easy for officials to falsify declarations by simply claiming that they bought the high-priced goods from savings they had accumulated from previous years.

In the end, officials will be able to avoid accountability. The only exception, of course, is when law enforcement agencies are given an order to punish disloyal officials.

Putin is pushing the bill through the Duma in a rush to implement his decree. Government officials have been given three months to get rid of their foreign bank accounts, to declare their foreign assets and real estate holdings and to explain how they got the money to acquire them. From now on, they will have to declare all of their foreign transactions and assets and those of their spouses and minor children. The Kremlin is underscoring that it does not even want to wait 12 months to implement the law and that everyone will have to declare their foreign assets this year.

At first glance, this might seem to be a serious battle against government corruption. But this is only a fake battle, and the give-away is that the punishment for failing to fully disclose assets or for falsifying information is only dismissal from office. Violators will not face fines, confiscation or prison sentences. If you are a corrupt multimillionaire, dismissal from office is nothing more than a slap on the wrist. The only "punishment" is that if officials are fired, it will be difficult for them to steal more than they already have done using a government post.

Notably, Sergei Ivanov, head of the presidential administration, has been given the authority to implement the new law on income and spending declarations, effectively giving him powerful control over the senior ranks of the political and bureaucratic elite. Of course, that violates the principle of the separation of powers because it places the members of both chambers of parliament and other top officials in other ministries under the control of the presidential administration's highest-ranking official. If Russia were a democracy, the task of regulating top officials' income declarations would have been given to an independent agency with no connection to the Kremlin. But Putin put the entire mechanism under his personal control, through the agency of his presidential administration.

This tactic is a central component of Putin's "nationalization of the elite." By co-opting the pro-democracy opposition's main demand of fighting corruption and halting capital flight, Putin has found a way to boost his popularity and strengthen his control over the elite.

While Putin's close political and business associates will be exempted from scrutiny, anyone who shows even the slightest display of disloyalty to the Kremlin could become the victim of Putin's battle against corruption.

Putin is also hoping that his so-called anti-corruption drive will repatriate at least part of the $380 billion dollars that is estimated to have fled the country since 2008 alone. This would come at an opportune time, when Russia is facing an economic downturn. Putin has openly called on wealthy Russians to return their capital to Russia, and he reiterated that call during a recent interview with the German television channel ARD.

In this regard, Putin stands to benefit from the banking crisis in Cyprus and the scandal that resulted when the names of individuals were published who hold offshore accounts in the British Virgin Islands, Singapore and other offshore tax havens. That list includes the names of several senior Russian officials and their relatives such as Olga Shuvalova, the wife of First Deputy Prime Minister Igor Shuvalov, as well as top managers at Gazprom and several state-controlled defense corporations.

But Putin's policy of nationalizing the elite will produce very modest results. The sad fact is that the risk for wealthy Russians of operating a business or investing in Russia remains much higher than their risk of having money being discovered in an offshore account and facing light punishment. Moreover, high-priced tax lawyers will help wealthy Russians hide their money overseas in new tax havens that will remain out of the Kremlin's reach.

Unless a fundamental change takes place in the way government and businesses operate, Russia will remain the largest money launderer in the world.

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