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Eva V. Ertmane
University of Nebraska at Omaha

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CORRUPTION IN THE FORMER SOVIET UNION AND THE PROBLEMS IT
REPRESENTS TO THE DEMOCRATIZATION PROCESS

A Thesis

Presented to the

Department of Political Science

and the

Faculty of the Graduate College

University of Nebraska

In Partial Fulfillment

Of the Requirements for the Degree

Master's of Science

University of Nebraska at Omaha

by

Eva V. Ertmane

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THESIS ACCEPTANCE

Acceptance for the faculty of the Graduate College,
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Committee

Dr. Wally Bacon Wally Bacon

Dr. Jody Neathery-Castro Jody Neathery - Castro

Dr. Tatyana Novikov Tatyana Novikov

Chairperson Wally Bacon

Date November 30, 2004

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Eva V. Ertmane, BS

University of Nebraska, 2004

Advisor: Dr. Wally Bacon

ABSTRACT

The purpose of this study is to better understand the phenomenon of corruption in the former member states of the Soviet Union and the implications for a successful completion of democratic transition and consolidation. The complex political and economic situation is constantly changing, and although well over a decade has passed since the official collapse of the Soviet Union in 1991, the future of the majority of the fifteen former Soviet Union countries remains - at best - questionable and uncertain.

This study is concentrated on comparing different rates of progress towards democratization in several of the former Soviet Union countries, including Russia, Belarus, and the Baltic States. This study will show how the existence of systemic corruption is an obstacle to social, political, and economic development. It is clear that corruption is most widespread in transitioning economies, but measuring the exact extent and impact of it on these societies is very difficult. Empirical research has provided results that are estimates, however, and cannot be classified as an exact reflection of the actual situation.

Previous research done in this field presents diverse approaches on how to effectively reduce the rates of corruption in these newly developed countries, all of which carry heavy political, economic, and social baggage. This research will show evidence that progress towards democratization and marketization has not been as timely as was once predicted by Western leaders, academia, and others. The era and legacy of communism has clenched its claws into this region of the world, and is unable to let go of its deeply imbedded socialist beliefs and values.

Corruption will never be eliminated in its entirety. It can, however, be reduced through necessary policy implementation and the evolving development of the civil society. This must occur if democratization is to take its course.

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Introduction

The early 1990s brought about significant changes in the geo-political spectrum. The landscape of what was formerly known as Union of the Soviet Socialist Republics (USSR) was drastically changed after the collapse of the Soviet Union. Fifteen independent states emerged as a result of this historic event. Today, the Baltic States are considered to be a part of Eastern Europe, and Russia and its surrounding republics, as Central Eurasia.

The new challenges facing this troubled and discombobulated region of the world have presented western sociologists, economists, and political philosophers and scientists, with an opportunity to test their theories, to improve on the existing ones, and to come up with new ones based on real-life observations. Having the Soviet Union's form of government fail, the new question was: would the new countries choose the optimum Western alternative-democracy? If so, the transition from totalitarian communism to a pluralistic democracy was not going to occur over night. More importantly, from a realistic point of view, it is still not certain whether democracy is going to prevail, and whether the populace of these vastly diverse nations is going to eventually embrace these democratic principles.

By successfully instituting free market economies in previously command economy states, it is believed that positive social changes will follow. Opening the borders to Western influences will gradually transform the previous

oppressive, socialistic way of life. Globalization, however, brings new challenges upon the new century. Extensive economic ties bring different countries with different cultures closer together with a common goal of maximizing profits. The democratization process is challenging. The process is laden with many economic and political pitfalls. Nations come to recognize that financial resources are not the solution to every problem. It also takes great political leadership and will. During the past decade various rates of progress and regression have been observed within these post-communist states economically, politically, as well as socially.

This comparative study will concentrate on one common problem that all of the former Soviet Union countries have in common – corruption. Various forms of corruptions have been, still are, and some argue, will be present in these transitioning countries for a long time to come. Corruption is a local, as well as a global problem, which cripples both domestic and international economic systems. Although it is extremely difficult to measure the extent and impact on the economic systems of these financially distraught nations that are in transition, it is clear that there is a strong inverse relationship between economic growth rates and corruption.

The absence of transparency as well as extensive bureaucratic systems that become determinants, provide a breeding ground for all types of corruption, ranging from fraud and bribery to embezzlement. The lack of transparency in

economic and business decision-making has become one of the most important topics and concerns among business leaders and policy makers around the world. The business community and various governments become the ultimate force when proposing solutions to the phenomenon of corruption. The issue is a double-edged sword, as it is argued that some solutions involving catering to individual businesses further escalate the problem, rather than solve it, as businesses dictate the policy solutions. Similar controversy surrounds foreign aid, as its effectiveness is disputed. Both issues will be discussed in detail later on.

The main research thesis of this study presumes that corruption in the former Soviet Union is endemic and that many of the Western approaches to its solutions may not be adequate. There are significant differences between the Baltic States' progress towards democracy, and that of the Russian Federation, and Belarus, or any other former Soviet satellite country. The studies which have concentrated on underdeveloped and developing countries, where governments are transitioning from one political and economic system to another, suggest that corruption is a multidimensional issue, and solutions might be more complex than some have suggested. Each individual country must be looked at separately, as the different background of each indicates diversion in approaches necessary to take in each situation.

In this study, the analysis will be built upon widely known political theories that serve as the basis for a framework of further research, and possible policy suggestions. Corruption will be dealt with as a symptom of several causes, among which could be any combination of the following: inefficient government institutions, unstable economic policies, and inadequate property rights. It is important not to ignore that the former Soviet satellite countries inherited corrupt political and economic systems, to which they were subjected for over a half century. For many it was, and still is a way of life. It was not created and will not be eliminated overnight.

This study will shed some new light on the potential future of a number of these nations. Due to recent international political developments, the political landscape is constantly changing in these countries. Many political scientists forecast serious complications in the democratization process of the region, because all countries are experiencing multifaceted instability and uncertainty about the future. The ultimate outcome of democratization, and thus the battle to reduce corruption, is unpredictable. Today, individual governments are the key to rooting out corruption. It must be confronted internally, inside out, with pressure, help, and encouragement from a variety of international organizations committed to the advancement of political, economic, and social liberation.

This study will be organized in three main sections: the literature review, the study of the individual countries, and the outlook for the future. First, this

research will address the extensive work done in this field of study, as it continuously expands, and as new developments come to light. It will look at the theoretical framework and how, in a nutshell, theories, and eventually policies, generally fall under two distinguished domains, either realism or idealism, the way things are, and the way things ought to be. The majority of theories, of course, concentrate on the way the world ought to be. Western, developed, industrialized, and democratic nations have lofty advice to new emerging nations. American political journalist Theodore Harold White has said “The most difficult thing in the world is to know how to do a thing and to watch someone else do it wrong, without comment.”

Whether it concerns the process of democratization or the ways to confront and eradicate corruption, Western social scientists are eager to offer and test their theories and hypotheses. There is a conflict in how we see tomorrow’s world, as one, or as divided. Is international intervention the answer for most problems, or does it only fuel the existing ones and create new ones? The same is true with the concept of corruption. A clear definition of the concept itself is lacking. It is not always a legal issue; however, morality, as an issue, is always in play.

Kenneth N. Waltz (1979) has stated that theories, however well supported, may not last, they come and go; laws, however, remain. The next section will look specifically at several transitioning, post-Communist countries, including

Russia, Belarus, and the Baltic States, and see how far they have progressed in their fight against corruption. It will also look at the political and economic development of these countries, the headway they have made towards democracy, and what has been done to fight corruption.

Finally, an overall assessment will follow, with critical analysis, future predictions, current policy complications, and suggestions.

CONCEPTUAL AND THEORETICAL FRAMEWORK

Democratization – From Then to Now

Winston Churchill once made a statement that has been quoted all over the world, “Many forms of Government have been tried, and will be tried in this world of sin and woe. No one pretends that democracy is perfect or all-wise. Indeed, it has been said that democracy is the worst form of Government except all those others that have been tried.” After the collapse of the Soviet Union in 1991, a transition era began for all of the newly developed nations. The political and economic scene was in shambles. With inefficient economies run on communist principles and the Western military pressure, the Soviet economy imploded. With inefficient and wasteful institutions in place, there had to be a complete institutional overhaul.

Labels were changed overnight. However, that was just the beginning of a tedious and complicated process. It is believed that it is extremely difficult to build something new out of something old. That has proved to be true, as over a decade has passed, and progress has been uneven at best, with the exception of the Baltic States– Estonia, Latvia, and Lithuania. And even in these states, stability is lacking. The Soviet legacy is deeply imbedded in the region. One must factor in communist propaganda. These beliefs and values have been instilled in the people of these countries for almost a century. The impact of the Marxist-Leninist agenda on the populace could not be erased as easily as some people thought. Years of state domination of virtually all aspects of people's lives, created a totally dependent society, of which a large part is still in denial over the failure of communism.

It is said that democracy is not free; it often requires and demands fighting for. Heinz Galinski once stated that "Democracy cannot be forced upon a society, neither is it a gift that can be held forever. It has to be struggled hard for and defended everyday anew." It is almost impossible to ask people to defend something that is foreign to them, and with which they have had no experience.

The West was vilified in the Soviet Union for its blind beliefs in individualistic freedoms, fostering of materialistic societies, and its flaws, such as Western decadence and crime. Day in and day out men and women in

communist societies were told that living under a collective system is the best possible way of life, and capitalism was the root of all evil. From an early age, children in schools were indoctrinated in the Communist Party ideology.

Communism was all there was to know. On the other hand, the Soviet Union in the West was seen as the “evil empire.” It has been in the past and still is today, socialism versus capitalism, where each side believes that the other system is inferior.

Whether people were ready or not, there was no turning back. With a shock wave, democratization had begun. The State was no longer there to take care of its people, the way it had in the past. A highly centralized form of government and planned economy had led the State to moral and financial ruin. The Baltic States regained their long-awaited independence, since the Soviet Union was seen as an occupier. Other former Soviet Union countries, including Russia, Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Georgia, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan, were now separate entities, left to pick up the shambles of what was left of their impoverished countries, on their own.

Previously, social scientists, to a large extent, could only speculate on the condition the region was in, and the consequences communism had left. The secrecy and isolation of the Soviet Union, was why they had limited access to any information. Finally, the flood gates were open and the results were public.

The world could see first-hand the disarray to which communism had led.

In general, there are two schools of thought. The first is based on the belief that it is possible to reform the communist system, the second, that the newly-developed states must begin rebuilding their infrastructure from scratch. For the purpose of this study, the latter will be adopted.

The Johns Hopkins Model

A roadmap to consolidated democracy, The Johns Hopkins model, has been developed through book published by the Johns Hopkins University Press. It outlines the specific steps necessary for a successful transition and subsequently- democratic consolidation. Richard Rose, Director of the Centre for the Study of Public Policy at the University of Strathclyde in Glasgow, an expert in post-communist politics, points out that global theories of democratization define democracy in simplistic terms- holding free elections (White, Batt, Lewis, 276). Rose acknowledges that holding elections is the first step; however, it does not necessarily indicate successful transformation. "The conduct of elections must be free and also fair" states Rose (White, 276). Russia's President Vladimir Putin himself has stated that "...a legal electoral system alone will not guarantee full-fledged democracy unless it is incorporated into the real democratic institutions of society as a whole." Here is where we start running into complications that will be addressed throughout this study.

Juan J. Linz and Alfred Stepan identify five arenas of consolidated democracy. In evaluating the progress in transitioning countries, all five areas must be developed. It is important to note that not all areas develop at the same pace, as there can be progress in one or more, and lagging in others. These five fields are: civil society, political society, rule of law, functioning and efficient bureaucracy, and economic society (Linz and Stepan, 7-15).

The forming of *civil society* is an enormous challenge in post-communist societies. Communism denies individual rights, therefore the individual did not play a significant role in society. Civil society means that individuals are free to form into groups, and whether individually or united, are allowed and encouraged to freely articulate their ideas. In civil society, policy initiatives arise from below, and there is a flow of information and communication from the bottom up.

In a communist system, the hierarchal structure of government imposes demands on society from the top; supposedly the state knows best. People are not used to making decisions for themselves, they are not encouraged to express what they believe, as most don't even know what they believe in, other than what was told to them. The repressed societies, such as that of Russia, are used to order, and they fear chaos and are hesitant to take risks (Rose and Munro, 2). The communist ideology and its constant indoctrination, have created a huge roadblock in encouraging people to take their own initiatives.

Political society means that ways have been established in which the rules are made and the political system is run. There have to be contested free elections, constitutions, political parties, and branches of government (Linz and Stepan, 14). An absolute must, is legitimacy. The people must trust their leaders and institutions, and that trust must be earned. Currently there is a large gap between the people's resentment of government and the trust in government leaders, necessary for successful political society.

The concept of separation of powers is new to post-communist states, therefore *rule of law* is a difficult goal to attain. Under the Soviet Union there was an absence of rule of law. In order for the rule of law to be effective, it must be applied equally to everyone. The Communist Party of the Soviet Union was the executive, legislative and judicial branch all combined into one. It made, implemented, and enforced the laws as it saw fit. Many were exempt from complying with the laws and enjoyed immunity from prosecution. In 75 years of communist rule in Russia, coercion was the norm. Legitimacy was the antithesis of communism and was not obtained in the Soviet Union. To achieve legitimacy, some very corrupt minds had to be changed at a very significant price, a price for those in power that would be difficult to pay.

The next area is implementing *competent and subordinate state bureaucracy*. Bureaucratic red tape is a known negative aspect of all bureaucracies. The size of a bureaucracy must be sufficient so that institutions have the capability of

conducting state business efficiently. This was not the case in the former Soviet Union. Its extensive, out of control bureaucracy was beyond unmanageable, as the state tried to control everything, and in reality, was gradually sliding towards total disaster. The specific flaws of the current bureaucratic systems in place will be discussed in more comprehensive detail later on, as they are a major obstacle to democratization.

Last and certainly not least, is the creation of an *economic society*. It means that “Legal and regulatory framework produced by political society, respected by civil society, and enforced by the state apparatus” must be institutionalized (Linz and Stepan, 14). Former Soviet satellite countries all face a difficult transition from a planned economy to a free market economy. Shock therapy and gradualism have been very slow to yield immediate positive results, and has possibly created even more turmoil, as societies have been skeptical about what to make of the new system. Consumers have not been the beneficiaries of these reforms, and many have seen the new policies as a way to enrich the already rich, as the gap between the wealthy and the impoverished seems to widen.

Soviet societies have been accustomed to a welfare state. The command economy provided no incentives, and since their inception people have been very hesitant to take advantage of them. Many are still waiting for the state to provide for them rather than utilizing the opportunities of the new system. Representative democracy is supposed to be rule by the few, for the benefit of all.

Currently post-communist nations are experiencing oligarchy, the rule of the few for the benefit of the few.

This leads to the heart of this study – corruption. Endemic corruption is present in all aspects of social, political, and economic lives of the former Soviet Union. The extent of the corruption varies from country to country; however, the underlying causes have the same roots and implications for everyone.

Corruption in Transitioning Societies

Although no nation is immune to corruption and no matter how legitimate their governments are, the study of corruption in developing and transitioning nations has been the most appealing, as it is where corruption is most likely to manifest. Corruption has been a fascinating concept that has become the center of research because of its negative impact on societies and the global economy. Extensive economic ties bring different countries together. The fight to reduce corruption is a goal of the international community, as corruption has become one of the most important global problems, hindering our international economic system.

Corruption can take on many forms. It is a concept with many definitions which are expanding. The Oxford Dictionary defines corruption as widespread moral deterioration, the use of corrupt practices including bribery and fraud. More often, corruption is defined as the abuse of entrusted power for private

gain (Transparency International). The combination of discretionary power and the lack of accountability have been the essential components of creating opportunities for corruption to thrive.

Western societies have stricter standards for what are defined as corrupt acts, most classified as immoral as well as illegal. That is not the case in post-communist societies. The standards are more lax, laws are vague, and every case is unique. In dealing with diverse cultures, there is a fine line between what is considered to be a gift and what is a bribe. The former Soviet Union was known for its dysfunctional bureaucracy, which bred corruption through all strata of society. To be exact, it was a way of life. Everything was for sale, and just about anything could be bought. While communist ideology preached equality, reality facilitated the opposite.

The majority of post-communist societies have inherited a patrimonial system. It is important to note that although the system names were formally changed, the new system in large part is still run by old *nomenklaturists*. Richard Rose put it accurately: "The dominant ideology among ex-*nomenclatura* apparatchiks today is summed up in the old motto: Enrich yourself" (White, 278).

Corruption has been linked to several sources, among which could be any combination of the following: inefficient government institutions, unstable economic policies, and inadequate property rights. It is believed that successful

democratization will have a positive effect and improve the business environment that is so crucial in bringing former Soviet satellite countries to become functioning and contributing members of the international community. Many scientists believe that economic changes are the key, as free market principles will affect all other aspects of the political and economic well being of these transitioning countries.

Measuring Corruption versus Freedom

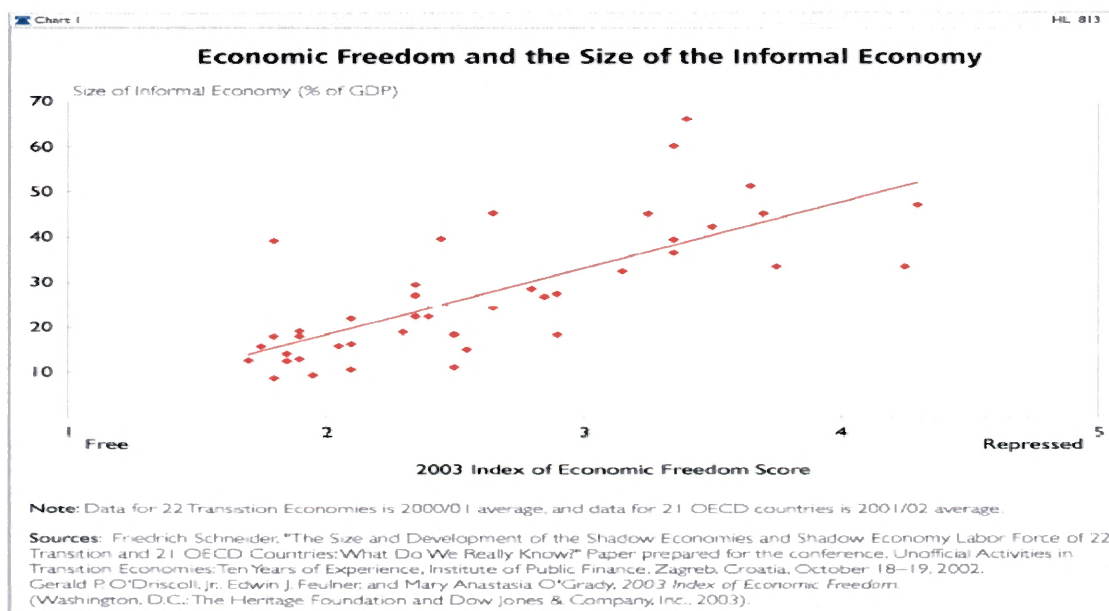
Ana Isabel Eiras (2003) of the Heritage Foundation brings an ethical or moral issue of corruption into the equation. Those are concepts, as well as corruption, that are difficult to measure. Eiras links corruption to the lack of economic freedom, showing “how economic freedom removes opportunities for corruption and promotes ethics not just for its moral implications, but also because of its economic value” (Eiras, 1).

The Heritage Foundation and the Wall Street Journal annually publish the Index of Economic Freedom, which measures economic freedom in 161 countries around the world. The study takes into consideration 10 different factors: trade policy, fiscal burden of government, government intervention in the economy, monetary policy, banking and finance, capital flows and foreign investment, wages and prices, property rights, regulation, and informal market (Eiras, 2).

The index provides insightful information to businesses and investors as it allows them to evaluate potential risks and benefits each country represents. Eiras states that the index supports what Frederick von Hayeck predicted more than 60 years ago that “economic freedom is required in all aspects of economic life-that is in all 10 factors- in order for countries to improve their economic efficiency and consequently, the living standards of their people” (Eiras, 3). This is significant, because it will be shown later that most of the post-communist societies see themselves worse off today than when they were under communist rule.

The following chart (Eiras, 2) reflects the positive correlation between economic freedom and the size of the informal economy in 22 transitioning economies.

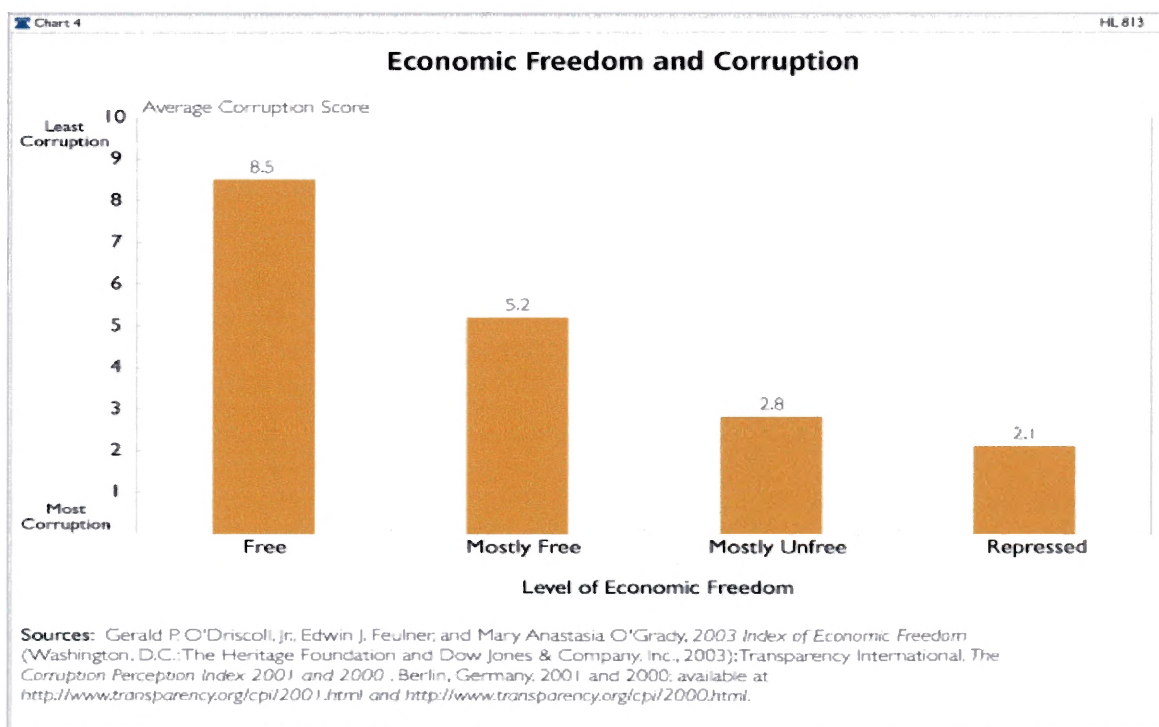
Figure 1



Informal economy refers to businesses that operate illegally, without state knowledge of their existence. The more repressed an economic society, the larger the size of the informal economy. The Index of Economic Freedom confirms that the regulatory environment and the lack of strong rule of law makes any post-communist business environment difficult. Eiras concludes that informality is a response to economic repression. An informal economy hurts the people that are employed by it and creates, in turn, a lower standard of living than for those employed by a formal economy (Eiras, 4).

The following figure (Eiras, 5) further illustrates that corruption flourishes in repressed and mostly unfree economic societies.

Figure 2



Scholars and international organizations have tried to measure the size of an informal economy, or what is also known as an underground or shadow economy in transitioning countries. It is a complicated task, as there can only be rough estimates and no definite answers. Daniel Kaufman and Aleksander Kaliberda (1996) are known for designing the electric consumption method (ECM), which measures the relationship between total economic activity and electric consumption.

Edgar Feige and Irvica Urban (2003) have followed up the study by reevaluating the ECM and pointing out the pitfalls of the method. The conclusions find that ECM models do not give reliable estimates of the size of the unrecorded economy, because “a variety of unrecorded activities may not require large amounts of electricity and/or may use other energy sources” (Feige and Urban, 12). Scholars who revised and tried to modify the original ECM, also yielded poor results.

The Organization for Economic Co-operation and Development (OECD) handbook procedures attempt to measure the unrecorded economy by measuring unrecorded income. In comparing the estimates, the results differ from those produced by ECM. Feige and Urban suggest that in order to yield more accurate estimates, scientists must take into consideration total economic activity of the concerned area, rather than concentrating on just a single variable.

Transparency International (TI) is a leading non-governmental organization (NGO) in measuring and combating corruption around the world. Corruption is a zero-sum game. It does not allow for two winners, and has a large impact on the social and economic community. TI measures the occurrence of corruption through surveys, indices, and other forms of research. The survey respondents are companies who do business abroad. Its findings are published in an annual Transparency International Corruption Perception Index (TICPI).

The TICPI 2004 ranks 146 countries, assigning a score of 1 to 10, 1 being the most corrupt, and 10 being least corrupt. The lower the rating, the more corrupt a country is perceived to be. Trade, foreign direct investment (FDI), and the flow of foreign aid, are all important to economic growth and development. High corruption levels indicate that a country will fall into the “high risk” category, because of the lack of political and economic stability that investors are looking for. Refer to Appendix Table 1 for the perceived corruption ratings of the former Soviet satellite countries.

The Cost of Corruption and the Impact on Societies

Susan Rose-Ackerman (1996) distinguished between “low-level corruption” by street-level officials and “grand corruption” by high-level

officials (Rose-Ackerman, 365). Although the motives are the same, the results, as one might suspect, are of a different magnitude. Both, however, have one thing in common: the self-enrichment of all officials is done at the expense of the people. TI lists the following consequences of corruption, which all are widely discussed in literature:

1. traps millions of people in poverty and misery
2. undermines democracy and the rule of law
3. distorts national and international trade
4. jeopardizes sound governance and ethics in the private sector
5. breeds social, economic and political crises
6. threatens domestic and international security
7. retards social and economic development and
8. threatens the sustainability of natural resources (TI).

Benefits that are available to society can be distributed by public officials who possess discretionary power. Rose-Ackerman (1999) writes that many private individuals and firms are willing to pay to obtain favorable treatment and “these payments are corrupt if they are illegally made to public agents with the goal of obtaining the benefit or avoiding the cost” (Rose-Ackerman, 9).

If government policies are not favorable to free market practices, because of overregulation and extensive bureaucratic procedures, the businesses are encouraged to avoid them by paying bribes to reduce costs (Elliott, 46). When the cost of dealing with state officials through bribery becomes too high, many businesses are forced to operate in the informal sector (Rose-Ackerman, 16).

Complex regulations serve as a deterrent to FDI and the emergence of new businesses, which in turn hinder competition- a necessary component of a functioning market economy.

Corruption exists because of an environment that fosters and encourages it. Noreen Doyle of the European Bank for Reconstruction and Development stated that "It is a well-known fact that in corruption, like in many other human activities, it takes two to tango. Corruption prospers not only because individuals are corruptible, but also because others are ready to be corrupted" (EBRD, 2003:1).

Public officials engage in corrupt practices, because the system allows them to do so. Hellman, Jones, and Kaufmann in "Seize the State, Seize the Day" (2000) examine how businesses interact with the state and how the power and influence that they possess can lead to 'captive economy.' The authors explain that in the capture economy public officials and politicians "privately sell underprovided public goods and a range of rent-generating advantages "a la carte" to individual firms ('captor'), and (these captor firms) derive significant private benefits at enormous social cost to the overall enterprise sector" (Hellman, 2000).

In transitioning nations, scientists usually study the dominating forces behind the transition, which are governments and their institutions. The state is the highest authority which establishes and enforces rules and regulations. Flaws in the system hurt the individuals and businesses that are subjected to them. In the *state capture*, the roles are reversed and businesses are responsible for shaping the formation of the basic rules of the game (Hellman, 2).

Businesses pay public officials to shape the laws, rules, and regulation to their benefit. The benefits reaped by a favorable environment bought by selected businesses provide them with the ability to exert influence on government institutions. The cost of existence of captor and influential firms in the society reduces overall firm growth rates; while captor firms are benefactors, other businesses' property and contract rights are weakened (Hellman, 4).

The European Bank for Reconstruction and Development (EBRD) and the World Bank are committed to helping transitioning countries move closer to free market establishment and the reduction of corruption. In 1999 these powerful organizations compiled the Business Environment and Enterprise Performance Survey which assessed corruption levels and its impact on the actual businesses of 22 transitioning economies (Hellman, 2). The survey measured administrative corruption, state capture, and influence.

The results yielded were that the level of administrative corruption in transitioning economies ranged from firms paying anywhere from one percent to as much as 5 percent or more of their annual revenues in unofficial payments to public officials (Refer to Appendix Table 2). In measuring capture economy, it was expected that the more advanced and successful the reforms, the lower the percentage of the capture and influential businesses (refer to Appendix Table 3) (Hellman, 9). While new firms are more likely to engage in the state capture, and large state owned businesses are more likely to be influential, both undermine economic growth and further economic development (Hellman, 33).

Social Factors

Having dealt with some of the economic factors and high-level corruption of the higher strata of society, such as business and political elites, it is also important not to ignore low-level corruption that affects everyday people in transitioning societies. Low level corruption is often overlooked, as economists are only concerned with the financial ramifications corruption imposes on an economy. The business community is united in one goal - maximizing profits. The underdeveloped and developing economies often provide business

opportunities that are not available in free market economies, offsetting the corruption.

Miller, Grodeland, and Koshechkina see high-level and low-level corruption going hand in hand; corruption at the top encouraging the same behavior at the bottom (Miller, 12). "At a systemic level, pervasive low-level corruption itself becomes a high level problem" (Miller, 12). It is believed that overlooking and not prosecuting petty crimes will eventually escalate into larger ones. As mentioned before, corrupt and illegal practices by governments as well as businesses, pass on the costs to society, in the form of higher taxes, higher prices, less choices, and the like.

One of the prominent reasons given for condemning and fighting corruption is, "because of the injury done to the public interest" (Clarke, 207). People in post-communist societies are used to dealing with low-level corruption in their everyday lives, buying licenses, paying off police officers for driving violations, paying doctors for better health care, among others. In a conversation with a prominent entrepreneur in Latvia the following sentiment was expressed "Not much has changed since Soviet times. You can still buy anything you need. The only difference now, is that the price for 'services' and 'favors' has become very expensive."

The possibility of reform is complicated by the way those who participate in low-level corruption feel about and justify their actions. There are two different models of low-level corruption identified by Miller, Grodeland, and Koshechkina:

1. “the ‘culture of corruption’ model – a culture of mutual favours in which citizens are happy to give bribes and officials are happy to accept them. Both sides justify the practice, perhaps even morally justify it, and neither feels that they are under duress;
2. the ‘victims of circumstances’ model – or what might be called a ‘corruption despite culture’ in which neither citizens nor officials justify the practice, in which neither feels happy, in which both feel ashamed, but in which neither feels able to avoid the practice” (Miller, 15).

The way individuals feel about corruption can predict to some extent whether reforms are going to be successful, or even desired.

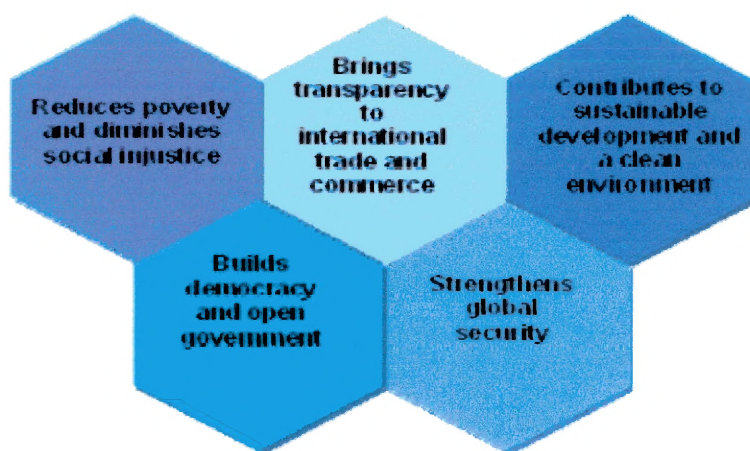
There is an overall lack of optimism in society as ordinary people feel that the transition has actually hurt them, and that they are worse off now than they were under communism. A primary concern among individuals is their own personal economic survival (Miller, 52). Soviet communism was one of the most corrupt forms of government; however, people were made to believe that corruption and crime were the problems of capitalistic societies. Today, there is a relatively free flow of information in most countries of the former Soviet Union and corruption usually captures the headlines. Constant scandals about corruption delegitimize government in the eyes of its people. Elections have not

solved the problems, as the government in waiting can be seen as more corrupt than the previous one, as the living conditions of the populace deteriorate (Kornai, Rothstein, and Rose-Ackerman, 33).

What to Do About It and Why

There is general consensus that corruption can be reduced. There must be a combination of both the continuing reform of individual government institutions, and the applying of pressure from various international organizations. The OECD, TI, Social Accountability International (SAI), the United Nations (UN), the European Union (EU), the World Bank, the International Monetary Fund (IMF), and EBRD are among the many organizations all committed to fighting corruption. TI concludes that corruption is worth fighting against, and its strongest arguments are found in Figure 3.

Figure 3: Fighting Corruption (Source: Transparency International)



TI Chairman Peter Eigen at the launch of TICPI 2004 stated that at least \$400 billion per year worldwide are lost due to bribery in government procurement and that “Corruption in large-scale public projects is a daunting obstacle to sustainable development, and results in a major loss of public funds needed for education, healthcare and poverty alleviation, both in developed and developing countries” and that the “poorest countries, most of which are in the bottom half of the index, are in the greatest need of support in fighting corruption (TI, London, October 20, 2004). Regretfully, with the exception of the Baltic States, all the other former Soviet satellite countries fall into this category.

It is easier to prevent corruption than to get rid of it. Robert Klitgaard (2000) sees it as a ‘disease.’ Once it has spread, it is extremely difficult to combat (Klitgaard, 5). When corruption is systemic, as in most of the former Soviet Union countries, many anti-corruption measures are ineffective. Often, to increase transparency and accountability, more laws are enacted. Corrupt officials hide behind an already overburdened bureaucracy. Here, what Cornelius Tacitus wrote might be appropriate, “The more corrupt the state, the more numerous the laws.”

In combating corruption, it is easier said than done. Government systems must be reformed, markets must be deregulated, transparency increased, and stiffer penalties imposed for corruption for both parties involved (Klitgaard,

1998:4). Most of these changes must be desired by the leaders of the troubled countries and implemented internally. EBRD and SAI in partnership with other NGOs and trade unions have written the “Business Principles for Countering Bribery,” which is an anti-bribery framework to be used by businesses of different sizes in various sectors (EBRD, 2003). EBRD has taken a strong stand against corruption with one of its representatives stating “With respect to corruption, the Bank has a zero tolerance policy. This is what the Bank is all about. We’re not just bringing money to Eastern Europe and the former Soviet Union, but also integrity” (EBRD, 2003).

The World Bank has also been a great contributor in fighting corruption. The World Bank has supported over 600 anticorruption programs and governance initiatives (World Bank: Anticorruption). Its anticorruption strategy is built on five major elements:

- increasing political accountability
- strengthening civil society participation
- creating a competitive private sector
- institutional restraints on power
- improving public sector management (World Bank: Anticorruption).

Although reforms take place in all sectors of the government, the judicial branch often gets the most attention. If an independent and impartial judiciary is lacking, the rule of law is impossible to implement. The UN Global Programme

against Corruption was established in 1999, which was followed by the UN Convention against Corruption in 2003. The anti-corruption treaty “spells out measures to prevent corruption in the public and private sectors and requires governments to cooperate in the investigations and prosecutions of offenders” (Lederer, 1). The UN Office on Drugs and Crime continues concentrating on preventative, enforcement and prosecutorial measures, by “strengthening judicial and law-enforcement systems in Member States” (UN: Corruption, 2004).

An important aspect of international cooperation is foreign aid. Eiras emphasizes that according to the OECD, over the last forty years, the developing world received \$1.2 trillion in foreign aid (Eiras, #1634:1). While aiming to promote reforms and to reduce poverty, the funds have failed to foster sustained economic growth, and have been subject to government misuse (Eiras, #1634:1). Therefore, it is important to reconsider, as many organizations have already done, by providing aid with so called “strings attached.” This is an important strategy because now the aid can be used as an incentive for governments in need of foreign assistance to strengthen the rule of law, which is an absolute must in reducing corruption.

The rule of law is necessary for enforcing the laws and punishing crimes, whether it is murder or tax evasion. Corruption will decrease only by strengthening the rule of law. Countries with weak rule of law suffer from

“corruption, cronyism, economic mismanagement, and political instability” (Eiras, #1634:3). It is well known, that laws, rules and regulations have no practical value, if they are not enforced, or applied arbitrarily. Many of the initiatives to combat corruption are very new, and their effectiveness will not be seen or felt for many years to come (Rose-Ackerman, 1999:187).

The critics, on the other side, see things differently. Some believe that international efforts to reduce corruption are almost useless, as they only complicate things even further. There has been little evidence to support that anti-corruption measures, formulated mainly by Westerners, have actually reduced the corruption rates. Andras Sajo believes that the widely accepted view that the post-communist states are saturated with corruption, steeped in clientelism, has been exaggerated and that “exploiting it for political purposes has triggered inappropriate legal reactions and moral crusades,” which in turn delegitimizes new democracies (Kotkin and Sajo, 1).

Sajo goes on to assess that the rule of law has been overrated in fighting corruption, and that it is foreign to many societies, as survival depends on mutual social favors. “In truth, the rule of law is protective of the status quo, not radical or transformative, and, as a result it does contribute, in many instances, to the institutionalization and normalization of clientelism and corruption” (Kotkin, 2). From an economic perspective, corruption is beneficial, because it cuts

through bureaucratic red tape. To reduce corruption, we must increase transparency, which also increases transaction costs and impedes economic development (Kotkin, 2). Endemic corruption can be looked at as an inevitable phase that all transitioning governments must endure due to their common past.

Robert Rotberg analyzes why states fail and one of the most important determinants is flourishing corruption with all of its adverse affects. A loss of legitimacy leads to failure of the nation-state (Rotberg, 8). For former Soviet Union nations, the goal is the successful completion of a democratic, political, and economic transition; failure is not an option. There must be improvements in the lives of the people, to avoid social unrest. People have been passive in voicing their dissatisfaction with current conditions. Although they are not satisfied with the way things are, they feel that there is little they can do about it. The work that has been started must be continued. Theories have to be put to practice, to further experiment with what yields positive results and what does not.

The next section will deal with three different states that have achieved different levels of progress according to the Freedom House- Russia (mostly unfree), Belarus (not free), and the Baltic States (free).

LONG ROAD AHEAD -FOR MANY- DESTINATION UNKNOWN

Russia-From Power to Desperation

“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things” were the words of Machiavelli. The status of Russia-the heart of the Soviet Union, has deteriorated from being a superpower, to not having much power at all. Russia is unique in many ways: its past, its society, its geography, and its leaders’ vision for the future.

If only things could have worked out differently. James Michaels points out that before the Bolshevik Revolution, Russia had a popularly elected Parliament, enjoyed the fastest-growing economy in Europe, and many peasants were becoming land-owning farmers, and, as Leonid Schapiro wrote, “On the eve of WWI Russia was quite rapidly entering an era of prosperity” (Michaels, 20). If only the communists had not come to power, Russia could have become a strong, democratic, and capitalistic society. When it comes to countries that have the potential to become one of the world’s leaders, there are many possibilities that writers like to explore.

Rather than dwelling on the possibilities that could have been, I will concentrate on Russia, today, which is not the same Russia it was yesterday. The eyes of the world are set on seeing the next course of action Russia’s leaders will

take. While some have written as recently as year ago that there are reasons for optimism and that Russia is slowly moving towards adopting at least some democratic principles, new developments suggest otherwise.

As Russia backs away from democratization by implementing an authoritarian presidential rule, it leaves itself in a gray area. While we tend to think in terms of black and white, or democracy versus totalitarianism, it opens the possibility that there is room for what the Freedom House calls a 'hybrid regime.' It is classified as a nation in transition, however, there is a strong indication that Russia is moving towards autocracy, rather than democracy. If anything is to be consolidated in Russia, it is not going to be democracy, at least not any time soon (Refer to Appendix Table 4).

The end of State Socialism in the Soviet Union was received with great enthusiasm around the world (Varese, 579). The vision that the former Soviet Union would become a well-functioning and prosperous market economy did not materialize, even after a decade and a half have passed. Michael Oakeshott in his essay *Rationalism in Politics* stated, that we must recognize "government as an instrument of passion; the art of politics is to inflame and direct desire," but he also warned that combining dreaming and ruling will generate tyranny (Oakeshott, 191-192).

Rational people are defined as those who pursue their own interests (Downs, 5). There are different ways people can go about achieving their goals,

whether they are political or economic. A major concern is the thinking that the end always justifies the means. That creates a problem, if that kind of attitude becomes the norm of society. Russia is a perfect example of that. Corruption is seen as a legitimate means, especially for the ruling political elite. Institutions are built on the basis of favoritism, clientelism, and nepotism. It is the structure of a society inherited from the past. It is a network which is hard to penetrate, and almost impossible to dismantle, and is largely foreign to Westerners' experience. It is believed to be leading to 'collective failure' (Varese, 579) A problem of systemic corruption in Russia's current government leads to the following assessments.

The State, Corruption, Crime

"Is corruption 'merely' the fast track to getting rich? Or is it the means used by the old elites to recapture the state and retain political control (and the special material privileges that went with it) by other means?" ask Marek Hessel and Ken Murphy (2004). The case of Russia appears to warrant an affirmative response to the second question. To outsiders Russia's President Putin does not seem to be driven by explicit financial motives. There is no doubt, however, that he has a much larger agenda – power.

President Putin has made it clear that he is not interested in building full fledged democracy, but building a strong state. The warning made by Lord

Acton is widely recognized, “power corrupts, and absolute power corrupts absolutely.” The real fear exists that Russia will regress to its old ways, and the power, once again, will rest with the state, rather than with the people.

The first step of market reform consisted of transferring state property to the private sector, also known as privatization. That action, however, proved to bring even more corruption into the equation. The planned economy, with its inefficient methods, had forced most businesses into virtual demise. They were now for sale, but usually not to the general public.

There was some success. In 1990 there were about 45, 000 new private firms, by 1997 the number increased to 842,000, with an equal amount estimated to be operating in the black market (Buss, 94). This is not to say that they became productive and contributing members of the business community, as these enterprises for the most part were unable to compete, and had very little earning power (Buss, 95).

There were some, though, who benefited greatly from privatization. The only problem was, they were the selected insiders “who paid criminally low prices for or some of Russia’s most valuable extractive industries” (MacKinnon, 171). The authors of *The New Russia: Transition Gone Awry* conclude that “shock therapy and privatization were largely destructive processes that have rendered Russia primarily an exporter of raw materials and a market for Western consumables” (MacKinnon, 171). The reason jumpstarting the free market

economy did not yield positive results, was because of the lack of an institutional base to support it. It is often cited that Russia is attempting to do things backwards, and therefore is not succeeding (Rose and Munro, 1).

It is best described as a vicious cycle. Business activities are retarded by a weak and dysfunctional system within which they must operate, and firms are unable to pay wages because of a lack of earnings. Businesses obtain credit, which they have no intention of paying back, which creates financial weakness in the banking system and financial markets. The majority of privatized firms are expected to fail, and most do. In 1998, 96 percent of all privatized farms went bankrupt (Buss, 97).

The Brookings Institution researchers and policy analysts refer to Russia's economy as a "virtual economy" (Gaddy and Ickes, 53). There is an official economy, which is seriously distorted and offset by the unofficial, or shadow economy. Regardless of the problem, whether it is economic performance, or corruption, the cause is poor governance (Abed and Gupta, 12). Russia, because of its huge geographical size, and poor infrastructure, has real problems bringing its large territory under control.

It has been a rollercoaster ride, from centralization, to some decentralization, back to centralization. Decentralization is not an option, as it takes power away from the national government. Delegating powers to the individual regions, gives them some autonomy, which is undesirable to the

Kremlin. For President Putin to solidify his power, his support must be widespread, and for the most part, that has been achieved. He rid himself of the old guard, and has surrounded himself with his supporters, who get appointed to leadership positions in all sectors of the government, especially law enforcement agencies (Petrov, 2). There is no doubt that the Communists still in government had to be removed, and appointments made on the basis of meritocracy, rather than cronyism.

Today, Putin's United Russia, is emerging as the party of Russia. The Duma and almost every institution, including the media, are controlled by the Kremlin. There is no balance, as the President holds all the power. There is little room for political opposition, therefore elections have little impact.

Izvestia reported that stability in Russia is based on the very high popularity of one person, which comes as no surprise, as the Russian people are a personality cult society. The article goes on to elaborate that "the center of gravity is located too high up – it is not a powerful multilateral system with several peaks counterbalancing each other. Thus if there's any sudden push from outside, the whole system could collapse" (*Izvestia*, 21/10/2004).

The political and economic society in Russia have a unique relationship. Recent years have illustrated that politics and business, or more accurately, Putin and big businesses, do not mix. It has become an ugly fight. The political opposition, represented by Mikhail Khodorkovsky of Yukos, was eliminated.

Although President Putin claimed he was cracking down on corruption, it was obvious that Khodorkovsky's political interests were a threat to Putin's power (Litvinovich). Khodorkovsky was not the first oligarch to pay a steep price for his political ambitions (like Berezovsky, Gusinsky and others), and many believe, he will not be the last. To clarify, Putin is not against all businesses, only those that try to influence or oppose him. As an example, Russia's most powerful "natural monopoly" Gazprom, was secured in 2001 by President Putin. Rem Vyakhirev was forced out and replaced it with a Putin insider (Shevtsova, 188).

The use of *kompromat*, or compromising material, has been dominant in the politics of Russia (Kotkin, 207). It is not a form of political bargaining, as the government uses ill-gained information to get rid of the opposition. Kotkin and Sajo describe it as "blackmail, provocation, or a declaration of war" (Kotkin, 209). It is an evolving and lucrative business, a form of corruption, necessary to consolidate the power. Politicians, journalists, and business leaders may all become victims of *kompromat* if they decide to be in opposition to the dominant force. What is worse, is that 'unsolvable' cases can result in assassinations, and no one will be held accountable. The leaders can literally "get away with murder."

In trying to reduce the influence that major business leaders exert on state policy, Putin has declared war on oligarchs (Freedom House: Russia). The Economist Intelligence Unit estimates that this year, capital flight has reached

approximately 10 billion US\$ (EIU: Russia). Today we see many businesses that stash their profits in overseas accounts are selling their assets and considering leaving the country, due in large part to the Yukos scandal. There is sentiment that they could be next. The Audit Chamber of the Kremlin, has been conducting a major study on privatization, covering 140 companies in Russia, which could be merely for tax purposes, or another way to use state power to “dig up some dirt” on leading businessmen (EIU: Russia).

Economic progress is delayed by a dysfunctional banking sector. Financial crises, as was suffered in Russia in 1998, and was a direct result of systemic corruption, insufficient bank regulation and supervision, and inadequate fiscal policy (Spero and Hart, 57). Russia's banking system is dominated by the Central Bank. Dmitri Vasilyev, the head of the Moscow Carnegie Center Program, “Corruption and the State Reform,” reports that the Central Bank is a hotbed of corruption. It is troublesome that only 50 percent of the Central Bank's profits are distributed to the government and “the other 50 percent is used for the benefit of at least some of the 80,000 bureaucrats employed by the Central Bank” said Vasiliev (Vasiliev, 1). It is simply chaos, where most would not even know where to begin to return to some uncorrupted fiscal policy.

The West is very concerned about Russia's close relationship with Belarus and other former Soviet Union countries. On September 19, 2004, Russia created

a Commonwealth of Independent States (CIS) with Belarus, Ukraine, and Kazakhstan, when it signed a mutual agreement with these countries (Heritage Foundation: Russia and Eurasia). Although 90 percent of Russia's trade is with former Soviet Union countries, the West wants to see Russia incorporated into the Western alliances, to help promote changes in the former Soviet Union. Naturally, seeing Russia's inclusion into the World Trade Organization would be more desirable than Russia creating an alliance of its own.

The goal is to bring Russia closer to Europe and the West, so that its political and economic standards are raised. If that is achieved, and Russia becomes a better place to live in and do business with, it is hoped that other countries in the region will follow. If, however, Russia continues to associate and do business with corrupt authoritarian governments of the former Soviet Union, rather than moving towards the West, it could easily fall back to its old ways. Cooperation between corrupt government institutions will only hinder the process of democratization and marketization.

In overview, when we apply democratic standards, most political and economic societies are deeply flawed. In Russia, the state bureaucracy is not useable, the rule of law is not enforced, and the economy is weak. New businesses are legitimately prevented from entering markets. Because of overregulation, monopolies flourish, and property rights continue to be weak. When security issues come to into play, as those regarding the Chechen rebel

terrorist attacks, it exposes Russia's security failures. The handling of the crises by the Kremlin exhibits poor policy and poor leadership. After the Beslan tragedy on September 1, 2004, when radical Islamist terrorists stormed the school and took more than 1,000 hostages, which resulted in several hundred deaths, Putin continued to avoid logical reforms. Instead of "revamping, training, and reorganizing Russia's anti-terrorist and security services, Putin has opted for a massive re-centralization of power" (Cohen 6).

If democracy is to develop, there has to be citizen participation. Today, most of the people of Russia choose to abstain from political participation. Half of the population believes that the country is out of control (Rose and Munro, 9). A majority believe that their living standards have fallen, and over 40 percent still favor communism, while 36 percent would prefer a dictatorship (Rose and Munro, 79).

The people will eventually determine the outcome of the situation in Russia. It will not be easy or quick. It is possible that an authoritarian regime is the answer for Russia. However, without reducing corruption, progress is impossible. An unstable Russia will have a negative impact on all of the surrounding countries, as they depend on each other economically. To bring stability and order back to Russia, it is almost inevitable that someone will have to rule the nation with an iron fist.

Belarus – From Frying Pan into the Fire

It is evident that complications due to widespread corruption are shared similarly in most of the former Soviet Union. Corruption in this part of the world has the same cause and effects, because all of the countries in this region share a common past. Looking at the Freedom House democratization rankings (Appendix Table 4), it is clear that the trend among the post-communist countries is leaning towards autocracy, rather than democracy. Belarus has a consolidated autocracy, and prospects for adopting any democratic principles are unlikely.

While people enjoyed some freedoms in the early 1990s, when President Alyaksandr Lukashenka came to power in 1994, the country quickly fell back towards totalitarianism and a command economy. The 2004 Index of Economic Freedom (Heritage Foundation) classifies Belarus as one of the most repressive countries of the former Soviet Union. The Heritage Foundation measures levels of economic freedom in countries across the globe and classifies them in four categories: free (score 1-1.99), mostly free (score 2-2.99), mostly unfree (3-3.99), and repressed (4-5). Belarus received a high score of 4.09 in 2004 (Heritage Foundation).

Being geographically next to the European Union countries, has not brought Belarus closer relationship with them. However, it has retained close economic and political ties with Russia (Economist, 12). This had led to

speculation that Russia is in a position to exert political and economic influence on Belarus, to get things turned around. That has not taken place, nor is it likely to in the near future. In a rigged referendum on October 17, Mr. Lukashenka “won the right to change the Constitution and to run for a third presidential term in 2006 (and for a fourth and fifth, if the president, who is only 50, still bothers with elections by 2016)” was reported by the Economist. While the West is strategizing how Putin could prevent Belarus from becoming the next Cuba, Russia’s politicians have actually endorsed Lukashenka’s referendum (Economist, 13). This means that Russia will allow events to unravel at their own speed and take their own course, especially when they do not directly threaten Russia.

The leadership of President Lukashenka shows the vast abuses of power, and how they are paving the way to outright dictatorship. This could be more devastating to the people of Belarus than communism. It is difficult to stop tyrants, unless there is a popular uprising or intervention from an outside power. Neither guarantees positive results, nor are they likely to take place in Belarus any time in the near future. The alternative is economic sanctions that could be imposed on Belarus, but are not seen as a very effective tool by many foreign politicians, as they only punish the people, and not the government.

President Lukashenka made an astonishing statement, “Our people live quietly and live well,” however, he failed to mention that they also live under a

repressive regime that disregards their basic political rights and civil liberties (Freedom House: Belarus). Belarus is a perfect example of how abuses in the civil and political realms go hand in hand. Private organizations and political parties are allowed, however, they face very large risks if they choose to oppose the current president.

The Constitution of the Republic of Belarus (1994) does not carry much weight, as Lukashenka has altered it to his liking. Although the Constitution calls for an independent judiciary, it is not what Belarus has in place. The courts are subject to weighty government influence and there is no guarantee of a fair trial. Secrecy allows all branches of the government to conduct their illicit affairs without interference from the outside.

Even in Russia, there was at least an attempt made in 2001 by the government to adopt a judicial reform package, to ensure due process and fair and timely trials. The government of Belarus has no intention of reforming its system or even acknowledging that it is flawed. In Russia, judicial reform has not yielded positive changes, as the judiciary continues to be “subject to political interference, corruption, inadequate funding, and a lack of qualified personnel” (Freedom House: Russia). In Belarus, the goal is to preserve the status quo, to benefit those in power.

The Belarus people are accused of being passive and apolitical, and not speaking up. It is a common charge made by Westerners that public

dissatisfaction can be often expressed in various ways. However, it ignores the fact that the environment might not be conducive to such actions. The reason is simple – self preservation. People value their lives, no matter how miserable. The World Bank reports that more than one forth of the population lives below the poverty line (Freedom House: Russia). As in a majority of the former Soviet Union countries, there continues to be a wide gap between the rich and the poor. The lack of progress has been blamed on the lack of a strong middle class.

Due to the repressive nature of the political and economic environment in Belarus, it has alienated itself from the West, and its relationships with the European Union, the United States, the World Bank and the IMF have been seriously damaged. The economy of Belarus continues to falter because it continues to follow an archaic Soviet economic model. Approximately 80 percent of all industry continues to be state owned. A small amount of privatization has occurred, but only at the pleasure of the President.

A violent political situation, coupled with numerous disappearances of opposition leaders, and with inefficient bureaucracy, corruption, and a concentrated resistance to the private sector, have discouraged foreign investment (Heritage Foundation: Belarus). The Economist Intelligence Unit reports that “the authorities discourage private enterprise through a combination of high taxes, excessive government regulation, and a deliberately anti-business climate” (Heritage Foundation: Belarus).

It is clear that the leadership of Belarus has no intention to reform. Its trade and friendship with Russia does little to promote open markets or institutional reforms. The TICPI 2004 lists Belarus as 74th out of 146 countries, with a score of 3.3 (on a scale of 1 to 10, ten being least corrupt and one being highly corrupt) and Russia as 82nd with a worse score of 2.8, followed by the rest of the former Soviet Union countries (Appendix, Table 1). It is important to note that the TI Index reports the perception estimates of corruption in each country, and the more repressive a government is, the harder it is to obtain accurate information. Therefore, it is likely that the situation is actually worse than reported.

In essence, the current GDP growth rates in Russia and Belarus, currently on an average of five and four percent respectively, have not translated into positive trends that have improved the lives of ordinary citizens. The same can be said for the surrounding countries. The studies of public opinion in the former Soviet Union reflect that largely due to poor management and corruption, the transition has mainly benefited “their own politicians and officials, rivaled only by their own criminal mafiosi – insofar as the public could distinguish the one from the other” (Miller, 58). The task of reform is overwhelming, and while desired by the public, it is resisted by power-driven, self-serving, government officials.

The Baltic States – A Ray of Light

The Baltic States – Estonia, Latvia, and Lithuania, all represent significant progress and prove that transformation is possible. Today, The Freedom House lists all three as having consolidated democracies. All three nations are the newest members of the North Atlantic Treaty Organization (NATO) and the European Union. There is no turning back for the Baltic States, but this does not mean that reforms have ended or are even close to being completed. Economic progress does vary from country to country. While considered to be on the right track, they still share one common problem - corruption.

The TI lists Estonia (31st with a score of 6.0) as the forerunner, ahead of all the former Soviet Union countries with the lowest level of corruption, followed by Lithuania (44th with a score of 4.6) and Latvia (57th with a score of 4.0) (Appendix, Table 1). Clearly, Latvia and Lithuania are still perceived to be relatively corrupt countries, for which much work lies ahead. The strategies for fighting corruption have been formulated by Western organizations, and for the most part, in the Baltic States, have yielded some positive results.

One of the requirements for accession into the EU was the institutional reforms, to help reduce corruption. Governments were driven to meet these standards if they were to satisfy the accession criteria. The necessary legislation was passed and adopted. Enforcing it, however, will be a different matter.

Unique circumstances surround the Baltic States' success of democratization and marketization. While being a part of the Soviet Union, these countries managed to keep their national identities, which in large part can account for their success. For the Balts, being in the Soviet Union did not mean being of the Soviet Union. In 1940, when the Baltic States were annexed by the Soviet Union, the Soviets were seen as illegal occupiers of their territories. Communism was not the choice of government in the Baltic States, and there were resistance of and resentment towards the Soviets for imposing their brutal regime on its people.

After regaining their independence, the Baltic States continued to be in a vulnerable position. Without becoming an integral part of Europe, there was still fear of a distant possibility that Russia could once again annex the Baltic States and exercise governance over its peoples. Although hesitant to go from one union to another, the alternative was not an option. To some extent, like other former Soviet Union countries, the Baltic States are no exception. The majority of the public reserve their enthusiasm about the future, because the changes have not drastically improved the living standards of most of the population. On a positive note, however, the younger population, as expected, is more reform oriented, and increasingly feels that with time, the overall situation will improve. It is important for this sentiment to remain, as the young population includes the leaders of tomorrow.

In looking at the political and economic situation in the Baltic States, the old Soviet system has been overhauled. All of the Balts have parliamentary democracies, and unlike in Russia and Belarus, the presidency is a ceremonial post. Their presidents are the top diplomats of the states rather than the ultimate authority figures. Their constitutions are built on democratic principles and provide for independent government institutions, and the political and civil rights of its citizens. Most importantly, the constitutions are adhered to.

People enjoy their freedom and liberties which are still not utilized to their fullest potential. In general, the population tends to distance itself from politics, although more and more people are showing interest. The strong presence of NGOs illustrates the development of the civil society. People do not fear their government, although they might not be satisfied with it. Latvia and Lithuania have been accused of disenfranchising their large Russian minority groups by adopting stringent citizenship laws. Civil rights issues continue to revolve around Russian minority groups. There is very strong support in Latvia against giving many non-Latvian speaking Russians the same political and social privileges that natural citizens enjoy.

There has been free formation of political parties, and some argue that there are too many. Pluralism can be challenging, and actually become an obstacle to sound government. The existence of dozens of political parties has hindered the formation of strong governments. Many coalition

governments have been formed, and shortly after, dissolved, for failure to reach any consensus. Latvia has the worst record in this field, currently on its 11th government since regaining its independence. Due to this fragmentation, there is a lack of both stability and a sense of permanency in the government. It is a constant struggle between the politicians who are fighting, using any, means to retain their lucrative positions, as the line of those who are ready to take their place, keeps growing.

The economy in the Baltic States is growing at a rapid pace. The European Union has become their largest trading partner, shifting away from Russia. Privatization is almost complete, and even though the businesses are concentrated in "holdings," they have been transferred from the state, to public ownership. Privatization has benefited a few enormously, as Latvia has one of the highest per capita millionaire counts of all the former Soviet Union countries. Due to the large amount of businesses owned by the elite few, there continue to be scandals over who got a hold of what and how they got it.

Many businesses and banks are owned by foreigners, who find their new markets attractive. The banking sector has been stabilized after the 1995 and 1998 crises, when many banks were either liquidated or consolidated (Heritage Foundation: Lithuania). To meet the EU accession requirements, the inflation rates had to be brought under 3 percent. In comparison to Russia's 20 percent

and Belarus' 66 percent, the low rates of inflation in the Baltic States are impressive (Heritage Foundation: Belarus).

Entry into markets for new businesses is relatively easy in all of the Baltic countries; however, Latvia and Lithuania still suffer from burdensome regulation, which makes this area susceptible to corruption (Heritage Foundation: Latvia). Estonia has eliminated many of these problems, and that is what set it apart from its sister countries. The independent judiciaries lag in efficiency and are subject to corruption, which has been blamed in large part on the lack of trained and professional personnel and insufficient funding.

All three countries have held numerous elections that by Western standards, have been free. Media is uncensored, and free to publish 'sensational' stories that can start large scandals. In Latvia, I believe, the general public is obsessed with bringing down those in power, hoping that the next candidate will be more to their liking and will do something to improve their lives, rather than enrich themselves. Every government in Latvia since 1991 has been dissolved in large part due to corruption allegations and scandals.

It is hoped that being a part of the European Union, will continue to bring positive changes to the Baltic States and that living standards for ordinary citizens will improve. People hope that the European Union will bring not only higher prices for consumer products and services, but also higher paying jobs and better salaries. Perceived corruption is closely linked to people's trust in

government (Kornai, 35). The people of Latvia and Lithuania, as in the other former Soviet Union countries, continue to mistrust their government because they perceive it to be a corrupt institution. When they think of corruption, they think of their leaders. Whether it is true or not, it is clear that the issue of legitimacy of governments is present in all of the former Soviet Union countries. Even when candidates are fairly elected, they are not trusted. It is one of the legacies of communism that will be difficult to overcome.

ASSESSMENT AND CONCLUSION

No country, developed or underdeveloped, is immune to corruption. The transitioning countries of the former Soviet Union, however, inherited inefficient institutions that allow corrupt officials to benefit from a defective system, which makes it so much harder to move away. Government officials, in fact, expect to receive bribes and there is always someone who is willing to pay them. It is giving and taking, a chain that is difficult to break.

Today, corruption has become a serious problem, and the business-oriented international community suffers from illegitimate market activities. While some monopolistic industries can reap immediate benefits, the overall business community suffers as it is denied an equal chance to reap the benefits of a free market system. It was believed that with the collapse of the Soviet Union, the result would be that new democracies and free market economies would

emerge. The outcome of the Cold War would be awesome; the long-time enemy would be transformed into a viable partner, politically and economically.

Joseph Lepgold and Miroslaw Nincic explore the complicated scope of international politics and assess that “The world has changed in ways that make officials less confident about what they know or believe they can project about the future” (Lepgold and Nincic, 23). This observation certainly materialized with the high expectations the West had for the former Soviet Union. After almost decade and a half later, Russia and its surrounding countries are nowhere near where Western leaders would like them to be. Each country has progressed towards democratic principles or regressed away from them at different rates.

While the Baltic States have finally pulled away from being in Russia’s extended sphere of influence, other countries have taken different paths. By adopting authoritarian regimes, hope for democracies are put on hold indefinitely. While Russia has been the most important nation in leading key reforms, recent security challenges are leading Russia back to centralizing its government. President Putin has been an outspoken supporter of market reforms, but the majority of the market issues have revolved around Russia’s oligarchs. Political opposition is not tolerated, and is suppressed by any means.

Alena Ledeneva has pointed out Russian common opinion that “Nothing is as strong or as weak in Russia as it seems” (Kornai, 71). That may be true, but President Putin is committed to changing that. Russia must be as strong as it

once was, or at least as strong as it once seemed to be. It is evident that by building a strong state, Russian leaders hope once again that Russia becomes a major world player. However, it is argued that Russia is going about it the wrong way and doing it for the wrong reasons.

A repressive and centralized government, even for reasons of security, will not yield productive results. While the aim of the West was to involve Russia in the Western alliances, it is anxious to form new alliances of its own, where it gets to set and dictate the rules. If Russia distances itself from further democratic reforms, it will result in a huge loss for a large part of the population of the former Soviet Union countries as well as for the goal of democratic expansion the West is trying to achieve.

Authoritative regimes of the former Soviet Union, subject their people to further political and economic suffering. Selfish agendas of a selected few, do not allow for intellectual as well as economic development. Pervasive corruption in their governments forces people to live under illegitimate leaders with self-serving interests. Inefficient institutions promote corruption, as out of control bureaucracy allows its users to abuse the system. People of the former Soviet Union live under a corrupt culture composed of patron-client relationships, rent-seeking activities, cronyism and nepotism. These traits have proved to be very difficult to eliminate.

While governments vow to fight corruption, little has proved workable. There has to be accountability and there has to be transparency, but achieving them has been challenging. Anti-corruption legislation has been no more than words on a piece of paper that has long been filed away. While enacted with good intentions, more laws have complicated an already overloaded system with more formalities. They fail to address the old problems and complicate matters even more by creating new ones

Those that have worked the system for years will always find new ways of getting around the law. One might ask what law? Increasing salaries for civil servants will not help in solving the problem. In 2002 there was an attempt to adopt the Code of Conduct for Civil Servants of the Russian Federation, which was turned down by the government and the President's administration (Vasiliev, 1). Corruption has become an attention-getting slogan, but there is a lack of will to do something about it.

To have an effective judiciary, it must be independent and free from influence from other branches of government. To support strong a strong rule of law would be incriminating for the majority of these leaders. Those that have power find it easy to abuse it. If there are failures, it is always easier to blame it on someone else. It will be impossible to reduce corruption without major restructuring of government institutions, just as *perestroika* was impossible without *glasnost*. The same can be said for the current situation in Russia. It will

be impossible to fully implement a free market economy without democratic government.

Power can either lie with the people, as it does in democracies, or with its leaders, as in autocracies. The Western model of democracy might not be the answer for post-communist countries. People have had no experience with it and, although it sounds promising, they are hesitant to stand up for democratic principles. The Baltic States were an exception, as their people were of a different descent, with different history, and were passionate about their independence.

Realists argue that globalization, interdependence, and internationalization are all overrated, as they work on eroding individual countries' national identities, as well as having other adverse affects. Perhaps, transitioning countries would be better off by choosing the path they want to take on their own thereby learning from their mistakes and reveling in their achievements as they occur.

Foreign aid is a double-edged sword. There are many who still believe that financial assistance to developing countries is very important, despite its poor track record. The IMF has been accused of being "wasteful and antimarket" (Gilpin, 389). The International Financial Institutions Commission proposed that international lending institutions should be radically reformed and restructured as "these agencies frequently do more harm than good in the developing world

and waste billions by making loans to middle-income countries that could rely on the markets instead”(Gilpin, 389).

It is well known that foreign aid, as well as everything else in the former Soviet Union, is subject to government mismanagement. While intended for strengthening and improving government institutions to reduce corruption, foreign aid itself becomes the target. Although intentions are good, the effects often turn out opposite to the intent. Westerners are trying to push their agenda, in the best way they know how- money. However, it is not working. Russia is not run on democratic principles and is moving towards an authoritarian regime. Under its current leadership, the surrounding countries, such as Belarus, are considered to be doomed with little or no hope for democracy.

This study fails to answer the question many are asking. What is the alternative to intervention? Would it be better to support a “hands-off,” laissez faire approach? Or should there be even more involvement and pressure from abroad? The answer depends on whether one is a dreamer or a doer. Whether corruption will be reduced in the former Soviet Union countries ultimately lies with the people. The longer people feel that there is nothing they can do about it, the worse problems will get. Until minds are changed and people opt to take a more proactive role in their societies, there will be no light at the end of the tunnel.

APPENDIX

Table 1**2004 Transparency International Corruption Perception Index
Former Soviet Union**

<u>Country rank*</u>	<u>Country</u>	<u>2004 CPI Score**</u>	<u>Confidence Range***</u>
31	Estonia	6.0	5.6-6.7
44	Lithuania	4.6	4.0-5.4
57	Latvia	4.0	3.8-4.3
74	Belarus	3.3	1.9-4.8
82	Russia	2.8	2.5-3.1
114	Moldova	2.3	2.0-2.8
114	Uzbekistan	2.3	2.1-2.4
122	Kazakhstan	2.2	1.8-2.7
122	Kyrgyzstan	2.2	2.0-2.5
122	Ukraine	2.2	2.0-2.4
133	Georgia	2.0	1.6-2.3
133	Tajikistan	2.0	1.7-2.4
133	Turkmenistan	2.0	1.6-2.3
140	Azerbaijan	1.9	1.8-2.0

* 2004 TICPI ranks 146 countries, 146th being the most corrupt.

**CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 1 (highly corrupt).

***Confidence range provides a range of possibility values of the CPI score. This reflects how a country's score may vary, depending on measurement precision. Nominally, with 5 percent probability the score is above this range and with another 5 percent it is below. However, particularly when only few sources (n) are available an unbiased estimate of the mean coverage probability is lower than the nominal value of 90%.

(Source: TICPI 2004)

Table 2***Measuring Administrative Corruption***

Country	Administrative Corruption+	Standard error
Albania	4.0	(0.4)
Bulgaria	2.1	(0.4)
Croatia	1.1	(0.2)
Czech Republic	2.5	(0.4)
Estonia	1.6	(0.2)
Hungary	1.7	(0.3)
Latvia	1.4	(0.3)
Lithuania	2.8	(0.5)
Poland	1.6	(0.2)
Romania	3.2	(0.4)
Slovak Republic	2.5	(0.4)
Slovenia	1.4	(0.3)
Average CEE	2.2	
Armenia	4.6	(0.7)
Azerbaijan	5.7	(0.7)
Belarus	1.3	(0.4)
Georgia	4.3	(0.6)
Kazakhstan	3.1	(0.5)
Kyrgyzstan	5.3	(0.6)
Moldova	4.0	(0.6)
Russia	2.8	(0.2)
Ukraine	4.4	(0.4)
Uzbekistan	4.4	(0.6)
Average CIS	3.7	
Overall (unweighted average)	3.0	

+ Firms were asked, on average, what percent of revenues do firms like yours typically pay per annum in unofficial payments to public officials?

0%; less than 1%; 1 - 1.99%; 2 - 9.99%; 10 - 12%; 13 - 25%; Over 25%,

The categories were imputed at 0%; 1%; 2%; 6%; 11%; 19%; 25% and the mean calculated.

(Source: Hellman, Jones, Kaufmann)

*Table 3**Captor and Influential Firms*

Country	Captors (% of sample)	Influential (% of sample)
Albania	11	4
Armenia	7	3
Azerbaijan	24	1
Belarus	2	5
Bulgaria	11	8
Croatia	10	12
Czech Republic	7	8
Estonia	5	11
Georgia	8	8
Hungary	4	3
Kazakhstan	6	4
Kyrgyzstan	7	7
Latvia	14	14
Lithuania	14	5
Moldova	12	14
Poland	9	3
Romania	13	9
Russia	9	7
Slovak Republic	12	4
Slovenia	10	3
Ukraine	12	14
Uzbekistan	2	4
Overall (unweighted average)	9	7

(Source: Hellman, Jones, and Kaufmann)

Table 4

Nations in Transit 2003 Democratization Rankings (Former Soviet Union)

	<i>DEM Score*</i>	<i>ROL Score**</i>
<u>Consolidated Democracies</u>		
Poland	1.63	2.00
Slovenia	1.75	1.88
Hungary	1.81	2.25
Slovakia	1.81	2.63
Lithuania	1.88	2.63
Estonia	1.94	2.13
Latvia	1.94	2.88
Czech Republic	2.00	3.00
<u>Democracies (some consolidation)</u>		
Bulgaria	3.13	3.88
Romania	3.25	4.38
Croatia	3.44	4.50
Yugoslavia***	3.50	4.63
Albania	3.94	4.63
Macedonia	3.94	5.00
<u>Transitional governments or hybrid regimes</u>		
Bosnia	4.31	5.00
Moldova	4.38	5.38
Ukraine	4.50	5.13
Armenia	4.69	5.38
Georgia	4.69	5.13
Russia	4.88	5.13
<u>Autocracies</u>		
Azerbaijan	5.31	5.75
Tajikistan	5.50	5.88
Kyrgyzstan	5.63	5.75
<u>Consolidated Autocracies</u>		
Kazakhstan	6.13	6.25
Uzbekistan	6.56	6.25
Belarus	6.63	6.13
Turkmenistan	6.94	6.63

* Democratization Score - **DEM**- covers electoral process, civil society, independent media, and governance.

** Rule of Law Score - **ROL**- addresses human rights, judicial independence and reform, and corruption

*** Serbia and Montenegro

Note: Freedom House rating range on scale from 1 to 7, with 1 representing the highest degree of freedom and 7 the lowest degree of freedom (free to repressed). (Source: Freedom House)

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