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The Nature of Illegitimacy

By Konstantin Sonin

ately all kinds of people -- leading stock market analysts, specialists on internal arrangements within the Kremlin and people who simply like to talk about the unfairness of the privatization carried out in this country -- have found themselves an interesting topic for discussion: compensation payments. The basic idea is that the owners of the biggest industrial concerns should contribute a certain sum to the national budget, in return for which we, the citizens of Russia, will regard them as the legitimate owners of this property.

More than a few formulas for "fair compensation" have already been advanced, with last week's issue of the magazine SmartMoney offering a discussion of some of the more diverting proposals now circulating. To which I say: Hold on a minute! Before we discuss specific compensation schemes, it is certainly worth considering what it is, exactly, that needs compensating. In my opinion, there is no sense whatsoever in offering up "compensation payments" as a means of reconciling Russians with the fact that people may be divided into the very rich, the rich and the poor. Here's why.

There is no question that Russians now consider the results of privatization illegitimate; just ask the sociologists. This has not always been so. In November 2003, Alexander Privalov, deputy editor of Expert magazine, could observe in a round-table discussion that "The problem of the legitimacy of privatization no longer exists." Today, however, it doesn't simply exist: It is largely the illegitimacy of privatization that forms the ideological basis of our country's current economic course. But the nature of this illegitimacy, I should add, may be much more complex than those who are agitating for various compensation arrangements imagine.

There are two basic explanations for why Russian citizens consider privatization -- and in particular, of course, the securities auctions -- illegitimate. In the first, which may be called the "illegal distribution" variant, the citizenry disagrees with the distribution of the property in question because they feel that the procedures by which the current owners acquired this property themselves violated existing laws. In the second case, which may be termed the "unfair distribution" version, the citizens' disagreement with privatization is actually an expression of their dissatisfaction with the current state of affairs abroad in the land -- inequality, poverty and so on.

The first explanation is much more widespread among the populace than the second. At the round-table discussion from 2003, at which Privalov waxed eloquent over the love of Russian citizens for private property, Ksenia Yudayeva, now project director at the Center for Strategic Research, spoke precisely of the problem of inequality as an explanation of the perceived illegitimacy -- but her observation attracted less attention than that of Privalov. Yet the question of which of these two explanations actually prevails in the here and now bears decisive significance in addressing two questions of national import: what measures might be taken to alleviate popular discontent and how a new privatization might be conducted.

If the whole issue comes down to "illegal distribution," then the Rosneft IPO, for example, will be seen by the public -- assuming it is conducted above board and in strictly legal fashion -- as the transfer of property into the hands of new and legitimate owners. But if the issue is really one of "unfair distribution," then no matter how clean the new privatization is in juridical terms, its results -- meaning its public reception -- will depend not on the unimpeachability of the procedures involved but on the extent to which the administration successfully copes with the task of overcoming inequality in our society. Which is, in essence, another theme altogether -- one involving luxury taxes, substantial increases in funding for education, more effective mobilization of labor resources, development of the regions and, yes, reducing corruption.

But all that is much less interesting, of course, than discussing compensation schemes.

Konstantin Sonin is a professor at the New Economic School/CEFIR.