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All Under One Roof

By Konstantin Sonin

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One of the reforms touted by President Vladimir Putin when he came to office was "deregulation": decreasing the administrative burden on small and medium-size businesses. But despite the fact that this was clearly needed, it soon became apparent that success on this front was unlikely. The main task -- to decrease the role of bureaucrats and ease the lot of private entrepreneurs -- soon seemed to run counter to a broader policy of increasing the state's role in the economy. Even though laws to underpin the reform were enacted from August 2001 to June 2003, the advent of the "Yukos affair" soon thereafter seemed to mark the beginning of a shift to a more statist approach to getting things done.

The recent release of a study of the results of administrative reforms, conducted over the last four years by the Center for Economic and Financial Research and Innovation, showed that improved conditions for small and medium-size businesses can be scored as an improvement achieved during Putin's presidency.

The study, led by Yekaterina Zhuravskaya, focused on 20 different regions, and 100 companies within each. The center asked the heads of small businesses detailed questions about difficulties they'd encountered. The replies registered improvement on nearly every front. State organizations are strictly observing the laws. Licenses are being issued more quickly and are good for five years, as stipulated by legislation. There are fewer and fewer arbitrary audits and reviews, and it is easier and cheaper to register ownership and rental of property. On paper, the laws were designed to lighten the burden on small firms, and the practice seems to be close to the letter of the law.

This really is an achievement. Putin's much-lauded "dictatorship of the law" -- his constant emphasis on the letter of the law, if not its spirit -- which appeared hypocritical against the backdrop of the Yukos affair and to the replacement of direct election of governors with a system based on appointments -- appears to have been the right approach when the issue was the formal implementation of a progressive law.

This deregulation success stands in contrast to the abstract achievements in strengthening the system of governance or victories on the gas front that official and unofficial propagandists love to talk about. The entrepreneurs answered questions about the number of hours they spent standing in line at the Federal Tax Service, the number of unwarranted -- in their view -- inspections they faced and the size of the bribes they paid to register rental property. These results are more than mere television news spin.

Not everything, of course, is rosy. A large percentage of businesspeople complained that they faced problems with the tax authorities. Businesspeople everywhere complain about taxes, but not as often about the people collecting them.

Economists Andrei Shleifer and Robert Vyshny once proposed what could be called the "one krysha" theory of corruption. They took the traditional slang meaning of krysha -- literally "roof," but used to describe criminals running extortion schemes by offering businesses "protection" -- and applied it to bureaucratic bribe-takers. The idea is that when the bribe-taking process is totally decentralized, and the health inspector, the fire department, and all the other inspectors

act without any coordination, then the burden on companies ends up being greater than when all the officials on the take operate as a single krysha.

This idea likely offers the best explanation for the deregulation success. In order to decrease the burden on small business, there had to be a decrease in the number of kryshas, that is, the state agencies taking bribes from entrepreneurs for the right to do business. In theory, laws should be passed that would regulate the work of officials. In practice, actions only had to be taken to organize the way they are implemented.

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