

# Whistleblowers Can Be Good Regulators

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On Tuesday, the RTS Index closed at 1,863. This is way up from its lowest level during the crisis, when it sunk to 498 in January 2009. It is clear that Russia is once again in favor with investors. Therefore, it is important that we learn the lessons from the consequences of previous capital inflows.

One particular problem Russia will face is how to control borrowing by state-owned companies — the firms that will have to be bailed out using budgetary funds during the next downturn. Steps taken by the Russian government in fall 2008 to help support the country's largest companies, such as RusAl, were no less decisive than moves by the U.S. and British authorities to rescue banks and large companies during their crises.

The difference was that in the United States, government funds were allocated on the condition that the company's management be replaced. In Russia, government funds were effectively given directly to company owners and no changes to senior management were required. What's more, the government was not held accountable for its bailouts, nor was there any analysis of the consequences.

The current capital inflows mean that it will now be easier for companies to borrow. A

company's own shares might serve as collateral for such loans. There's nothing wrong with private companies choosing this route. After all, the economy is driven by businesses taking risks to help them grow and increase profit. But when state-owned companies, or those that might later receive government bailout funds, engage in the same practice, they are not risking their own necks but budgetary and taxpayer funds. For this reason alone, such companies should be subjected to greater controls.

Many people draw parallels between Russia's current development and the state of capitalism in the United States a century ago. At that time, public activists were sometimes appointed as regulators. Perhaps Russia should do the same thing today. One place to start looking for candidates to serve as the country's top financial regulator: lawyer and anti-corruption activist Alexei Navalny.

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