

Geography and Permission

By [The Moscow Times](#)

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One of the things that strikes me most about talking to first time visitors to Russia is how surprised they are at how "normal" it is. To be fair, they arrive in Moscow, which is pretty normal compared with the regions. But even in the regions, things are becoming normal. The same thing happened to me when I recently went to Ufa, the capital of Bashkortostan: I was surprised at how "normal" it was. The visitors (and even I) labor under the impression that there are little spurts of reform and then a return to the status quo, when what is actually going on is continuous (albeit volatile) progress toward convergence with the rest of Europe.

Take for example an op-ed that Anders Aslund recently wrote that made a typical comparison of Russia with Estonia. The conclusion was obvious: Estonia as clearly gone a lot faster than Russia, and the implication is that the Kremlin doesn't want to make reforms because all the fat cats are too busy filling their pockets or locking up uppity oligarchs that get in their way.

This comparison is not fair to the point of being useless. The obvious difference is the size of the two countries: You can fit the entire population of Estonia — about 1.5 million people —

into my suburb of Moscow and still have space for the park. Put another way: How do you police the progress of reforms in Vladivostok from Moscow when your subordinates are working seven hours out of sync with Moscow because of the time difference? The local administration on the Pacific coast is asleep when the Kremlin, closer to the Atlantic coast, is awake and visa versa. Is it possible to run a region bigger than most countries by e-mail?

To give you a more concrete example: I interviewed Estonian President Leonid Meri in 1995. He told me that he had decided that he needed to reform the bank sector so he picked up the phone to the chairmen of the four biggest banks — all based in the capital Tallinn — and an hour later they met in the lobby of the best hotel in town and thrashed out the details over tea. At the time Russia had several thousand banks spread over (at the time) 11 time zones, most of them at best corporate treasury departments and at worst criminal money laundering operations.

Geography makes a huge difference to the ease of reform, but this is probably only the second biggest problem that Russia's reform effort faces. I had another very interesting conversation last week: dinner with Ruben Aganbegyan, the new chairman of MICEX. He made an extremely good point.

"The problem with Russia is that it has a permissive system of laws and not an preclusive system like in the West," he told me.

This is a subtle point, but I think it strikes to the heart of why it is so difficult to cut red tape, downsize the legendary bureaucracy and make an impact on corruption in this massive country.

Central planning has bequeathed Russia a system where you had to get permission for any market-based activity. Marxism demanded that all property be communally owned, but Lenin quickly ran into trouble when he tried to ban money in the early 1920s, and so the Politburo reintroduced some commerce. However, this business was always seen as "temporary" until the conditions for the workers' paradise could be created. As a result, business was an "exception" and you needed to get a permit to do it.

In the West we stand the idea on its head: You are allowed to do anything that is not specifically banned by the state (like dealing drugs). Under this system, running Vladivostok is actually pretty easy. You only need to make sure you have a good police force that looks for people breaking the law. But the Russian system is a nightmare as the apparatchiks have to wake up in the middle of the night to ask permission to set up a new company, invest in a new project or dig a new oil well — everything needs approval from Moscow, which is asleep most of the time you are working.

I don't pity Aganbegyan. He is the one charged with a big chunk of turning Moscow into an international financial center, an open and freewheeling bourse where capital pursues profit in trades every few nanoseconds. It is not possible unless you get rid of the paperwork.

Changing this mentality will be a titanic struggle. Former Economic Development and Trade Minister German Gref had a go at cutting permits in the early part of the naughties. He made a lot of progress, according to a subsequent study by the World Bank and the Swedish think tank Cefir. Trouble was, the study also found that hundreds of regional authorities were still

demanding the permits that no longer existed in law out of habit and because they were making good money out of issuing them. But deeper than the graft is the mindset. I am sure that it will take a generation to get rid of the fear of letting go of control — the bureaucratic equivalent of agoraphobia. Ironic in a land where the very real wide, open spaces are also a major problem.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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