

Russia's social model of bureaucracy

By Jon Hellevig

I have identified three main problems which Russia has to overcome in order to create sustainable prosperity. These are: inflation, corruption and bureaucracy. I believe that the two former ones have been properly identified and even when the results are not so evident as we would wish the fight against them goes on to full extent. But in regards to bureaucracy it seems that even the problem has not been properly identified.

President Medvedev and Prime Minister Putin are the first to admit that Russia has a problem with bureaucracy. And like with any serious problem, the admission goes a good way for the cure. But apparently they do not fully grasp the nature of the problem. Bureaucracy is not just a question about how state officials behave; rather the whole administrative culture is the problem. However maliciously or vexatiously the bureaucrat acts, he is only acting within the received framework of the system of detrimental social practices and laws. Ignoble social practices cannot be changed overnight, but these political leaders have all the power on earth to change the laws of Russia. But it seems to me that they have not realized that they should start with just that. Instead it seems that too much effort goes on to conceive of ways to change the psychology of the bureaucrat and to conceive new rules which would deter his insatiable bureaucratic appetite.

These leaders could start with a total revamp of the laws of Russia. Each piece of legislation presently in force in Russia is modeled on the Soviet rule-kit – the idea to equip each law with useless but mandatory bureaucratic procedures that companies and citizen have to comply with just for the sake of doing it. To some extent these ideas stem from the maxim of the command system according to which all that is not explicitly allowed is to be considered forbidden. On the other side of the coin is the idea that the lawmaker wants to catch all potential law breakers– that is, in their mind all of us - before they actually break the law. There is an underlying firm belief that by requiring a lot of documents to be produced in a set form this aim will be achieved, even though it is this very aim that creates the opportunities for machinations by manipulating the form which in Russia is so much more valued than substance.

A very peculiar consequence of this bureaucratic formalism is that the lawmaker kind of considers that it does not have the power to pass binding laws before all the subjects explicitly express their consent by complying with the rules. In this vein, for example, the corporate laws of Russia require that companies undergo cumbersome processes of re-registering their charters to comply with any new provisions of the law. In countries with a mature administrative culture it goes without saying that a company charter is not valid to the extent it is in breach of law and no ridiculous mass re-registrations are needed. Last year minor changes in the law on limited liability corporations led to the need to re-register the charters of every single LLC company in Russia. This was a task that the tax authority in its capacity of registration authority, of course, was not prepared for. And because the bureaucrats at the tax office contrary to the Russian constitution refuse to accept a signed power of authority by the general director, all the general directors in the country had to stand personally in line for hours and sometimes days in order to do the filing. At least from

Moscow we have reports that to comply with the bureaucracy people had to occupy their place in the line as early as four o'clock in the morning.

But bureaucracy in Russia is not only about selective and arbitrary adherence to cumbersome and absurd rules and red tape; rather it characterizes the entire administrative culture. It forms the misconceived model of how to conduct common affairs in an organization. Unfortunately the bureaucratic model has permeated society at large and even private enterprises follow the same bureaucratic command model. Russian enterprises mirror in all essentials the state administrative culture, a conspicuous feature of which is that cabinet ministers and executive committee members come to meetings as if they were schoolboys that have been summoned before the principal to get a lesson they will not forget. In this model there are no consultative meetings, rather the chief summons his subordinates for monologues, commands and reproaches.

Unfortunately this model is even actively propagated by the way Russian television cover government meetings. Most conspicuously the bureaucratic model entails the acceptance of the hierarchical command structure which effectively prevents any candid feedback from floating to the top.

We know from modern Western business administration that the quality of the corporate culture plays a decisive role for a company's success. We could compare the national economy with a corporation. Any corporation that would run such a corporate culture like the Russian administrative system would likely fail sooner or later. To succeed in the competition companies have cut down administrative barriers and organized themselves to meet the demands of the customer. And so have countries. A proper corporate culture spells better operations, more revenue and more profit. The same effects come about when a country liberalizes its administrative culture. Cutting bureaucracy would equal billions and billions of stimulus money as companies would be faster to seize and capitalize on opportunities and efficiency of operations would increase. I am confident that if Russia would seriously start mending its dire administrative culture then that would give an extra one to two percentages of GDP growth each year for at least a decade. Russian economy started a decade ago from very low levels and therefore there has been impressive growth even with these problems in the baggage. But to reach the next level of prosperity bureaucracy has to go.

Jon Hellevig

Managing Partner

*Moscow-based Hellevig, Klein
and Usov, attorneys at law, and*

*Avenir Group accounting and
consulting firm*

Russia

