

How Russia Could Make Billions Out of Thin Air

Only a few pages of lawmaking would be required to create billions and billions worth of economic gains for Russia. All it takes is to realize how totally permeated Russia is by the social cancer of bureaucracy, take it seriously, and then do something about it.

To a very large extent, administration and all legal compliance is still rooted in Soviet practices. But in Russia nobody seems to question this inherited bureaucratic model. The leaders have not realized that a true market economy and democracy do not fit in a Soviet straitjacket. In the Soviet Union the bureaucracy was a logical outcome of the centralized planned economy. The whole system was built top-down to serve the Gosplan, the all-comprising central plan.

In this setting, the economy of the whole country was run as if it were one corporation — one huge monopoly. And as the directors at the top were far removed from economic activity, they strived to control the business with rules, formulae and reports aimed at feeding the plan with input data, monitoring its fulfillment, and controlling the subjects. Even the role of company accountants was to serve as the controllers for the Gosplan to ensure the fulfillment of its goals, a practice that still serves as a model for today's accountants even though the Gosplan is long gone. So far, nothing much has been done to remove the Soviet overhang over business, indeed, nobody seems to have realized how totally permeated the system still is by the old inherited practices. The public at large takes this embarrassing bureaucracy for granted and does little to protest against it.

The Russian love for bureaucratic procedures today thrives on two sources: the inertia of taking the Soviet practices for granted and the misconception that law enforcement should be mainly pre-emptive — the idea is to make all economic activity comply with such complicated procedures that committing an offence against the law would amount to a mathematical impossibility. But, on the contrary, it is precisely this policy pursuit that has created the thriving industry of fraud and corruption by emphasizing form over substance. When the law requires that certain documents are produced and stamped in a certain form, then whoever manipulates the form more efficiently is the winner — and there are plenty of ever-too-willing officials selling their services in this pursuit. Contrary to the prevailing Russian idea, less formal requirements means stronger protection of legal rights and the rule-of-law.

As an example let's look at the otherwise modern and market-oriented taxation system of Russia, which is seriously damaged by the formalism by which the system is characterized through and through. The administrative burden imposed by the requirements to document business transactions according to the practices inherited from the Soviet Union weighs heavily on businesses. Most of the formal requirements are nonsensical and fulfill the sole purpose of playing cat and mouse with the tax inspector. But this is a game that exposes businesses to huge penalties without any corresponding benefit for the state. As a result, accounting and tax compliance in Russia for small and medium-sized businesses costs approximately 10 times more than it would in most Western European countries. In this game companies have to comply with a hypothetical set of forms issued by the State Statistics Committee, which does not even have the authority to do that anymore. Among the documents figure the beloved prikazi (the military-type administrative orders that the general manager has to waste his time on), the business trip reporting forms (to be stamped by the host company), etc. Connected with accounting and ultimately taxation and under the threat of administrative fines comes the requirement to produce a myriad of set-form documents affecting human resources administration, among these the most symbolic and nonsensical relic of the totalitarian control system, the deplorable labor book. I claim that the accounting system could be changed with no harm to anybody so that the VAT invoice would be left as the only formally prescribed document while all the other formal requirements would be done away with.

There is space here for just one more example. Consider the notary — another state controller, who replicates all the Soviet control systems but one layer down and from the perspective of 19th-century traditions. With no damage to legal protection, the whole institute of the notary could be abolished overnight leaving it with the sole function to verify signatures and the authenticity of documents.

Maintaining the inherited system of bureaucracy means that Russia continues with the Soviet traditions of self-inflicted economic harm. The reduction of bureaucratic requirements and making civil servants serve the public has created prosperity in the thriving countries of today. And if reduced bureaucracy works in other parts of the world, it would certainly be beneficial for Russia too. Cutting red tape and formalism would amount to the best economic stimulus possible — no funds would be spent on it, but the returns in increased labor productivity would mean billions and billions for the economy.