Corruption: Theory and evidence from the Russian Federation

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Abstract

In this paper, we provide theory and evidence on the problem of corruption in the Russian Federation. Our theoretical model indicates that in the presence of official corruption, the numbers of tax inspection (collection) employees could be inversely related to per capita tax collection. Our empirical analysis supports our theoretical model, shedding light on one of the most intractable problems in the Russian Federation.
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1. Introduction

The 1993 Russian Constitution created a federation of 89 heterogeneous subjects, while removing the Soviet command system that had harnessed the centrifugal forces in Russia for half a century (see Table 1). This has led to both positive and negative outcomes. Similar to the implementation of its central command system, Russia's tumultuous moves towards a market based system have been based on trial and error rather than a blueprint (Gregory and Lazarev, 2002; Lazarev and Gregory, 2003; Shleifer and Treisman, 2000). In the 1990s, the profound weakness of the Russian Federations's fiscal system was a catalyst to empowerment of its sub-national authorities, as well as regional tax inspectors. By the late 1990s, shortfalls in tax

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Table 1
Total taxes owed, including arrears and deferrals, by region (sub-nationals)

	Regions	Total tax debts			Arrears (*nedoimka*)			Deferrals		
		Consolidated budget		Federal share (%)	Consolidated budget		Federal share (%)	Consolidated budget		Federal share (%)
		Million rubles	%		Million rubles	%		Million rubles	%	
1	Republic of Adygeya	181	0.1	65	85	0.0	58	96	0.4	72
2	Republic of Bashkortostan	14000	5.4	33	13213	5.6	34	787	3.4	11
3	Republic of Buriatia	789	0.3	70	744	0.3	71	44	0.2	43
4	Republic of Altai	238	0.1	85	234	0.1	85	4	0.0	65
5	Republic of dagestan	520	0.2	49	464	0.2	47	56	0.2	69
6	Ingush republic	32	0.0	48	30	0.0	48	2	0.0	49
7	Kabarda-Balkar republic	1236	0.5	75	1179	0.5	77	57	0.2	37
8	Republic of Kalmykia	352	0.1	71	327	0.1	70	25	0.1	78
9	Karachayevo-Circassian Republic	324	0.1	59	316	0.1	59	7	0.0	61
10	Republic of Karelia	1351	0.5	54	1143	0.5	54	208	0.9	51
11	Republic of Komi	4561	1.8	70	4254	1.8	70	308	1.3	60
12	Republic of Mari El	614	0.2	76	582	0.2	76	32	0.1	69
13	Republic of Mordovia	896	0.3	74	852	0.4	75	44	0.2	64
14	Republic of Sakha	3233	1.2	71	3045	1.3	75	188	0.8	8
15	Republic of North Osetia	376	0.1	56	375	0.2	56	1	0.0	84
16	Republic of Tatarstan	7516	2.9	53	7106	3.0	54	410	1.7	51
17	Republic of Tyva	94	0.0	54	82	0.0	56	12	0.1	42
18	Udmurt Republic	1404	0.5	66	1339	0.6	66	65	0.3	51
19	Republic of Khakasia	1046	0.4	74	989	0.4	74	57	0.2	72
20	Chuvash Republic	1165	0.4	75	1012	0.4	76	152	0.7	68
21	Altai Krai	2061	0.8	79	1962	0.8	80	98	0.4	55
22	Krasnodar Krai	3806	1.5	58	3426	1.5	56	380	1.6	73
23	Krasnoyarsk Krai	7036	2.7	66	6465	2.7	67	571	2.4	46
24	Primorski Krai	3326	1.3	47	3049	1.3	48	277	1.2	38
25	Stavropol Krai	2095	0.8	63	1767	0.7	63	329	1.4	62
26	Khabarovsk Krai	3399	1.3	61	3109	1.3	65	291	1.2	11
27	Amur Oblast	1660	0.6	54	1555	0.7	55	105	0.4	32
28	Arkhangelsk Oblast	2382	0.9	65	2178	0.9	65	204	0.9	60