ORGANIZED CRIME, BUSINESS, AND THE STATE

IN POST-COMMUNIST RUSSIA

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When organized crime becomes a major problem in society, it reflects more than the failure of the state to maintain law and order. Like all other forms of social organization, organized crime exists so long as there are societal needs, legitimate or not, which are effectively met by those who choose to break the law in a systematic, organized manner. The fewer such needs, the less of a problem organized crime is. Torn from its social base, it becomes marginalized and controllable. In a society where lawlessness is the daily norm, organized crime performs too many societal functions for the state to be able to control it – and the state itself then becomes criminalized.

Organized criminal activity is also a form of business, and the market is a nurturing milieu for its growth. Natural conflicts between non-criminal business and organized crime are often overshadowed by multifarious systemic collusion between them. The money flow constantly crosses borderlines between legitimate and criminal business – in fact, the freer and more vigorous the flow, the harder it is to even see those borderlines, and the more difficult it becomes to draw new ones.

This puts the state in a quandary. Relations between organized crime and the state are supposed to be adversarial by nature. If the basic function of the state is to maintain
the legal order, relying on its legitimate monopoly on coercion, organized crime hits the state at its very core by challenging both the legal order and the state’s monopoly on the use of force.

Citizens won’t challenge the power of the state unless expected gains from the challenge outweigh the losses suffered from the expected punishment. Interactions between the state and organized crime reflect the overall balance of power between the state and society. No state can fully extinguish organized crime, but in a society characterized by a proper balance between the private and public spheres and by a stable and effective legal order which maintains this balance, the state will presumably be capable of keeping organized crime within tolerable limits. A poorly organized, dysfunctional state (formally democratic or authoritarian) stimulates organized crime by tolerating antisocial activities in some areas, while suppressing or discouraging socially necessary activities in others.

It follows, then, that organized crime grows where the state fails to help create and maintain a social order which would effectively protect citizens from criminal depredations while making it unnecessary for citizens to resort to criminal acts to meet their needs.

The surge of organized crime in Russia in the past 10-15 years has taken place in a triple context.

In a global context, Russian organized crime has the same causes as other forms of the worldwide proliferation of organized crime and corruption in the past quarter-century – above all, in the rapid and aggressive expansion of the market system which has given rise to new challenges to the authority of nation-states. The emergent global,
information-age market system rewards the criminal and stymies the state in a multitude of different ways. Governments, which have been adjusting their policies to grant maximum freedom to the movement and accumulation of capital, are confronted with the fact that capital readily and vigorously explores all opportunities, including – and sometimes especially, given the extraordinary rewards - those considered illegal, while governmental authority is limited by ineffectual institutional arrangements and the regnant neoliberal ideology which sees the state as a source of problems, rather than solutions. Meanwhile, societal dislocations accompanying globalization create fertile ground for the spread of organized crime: at one pole of society, poverty and social breakdown furnish organized crime networks with growing numbers of new recruits; at the other, demand for illegal goods and services rises as a product of middle-class and elite decadence. (Ruggiero, 1996; Elliott, 1997; Latov, 2001)

In a systemic context, Russian organized crime is a post-communist phenomenon specific to societies of the former Soviet Union and Eastern Europe undergoing systemic transformation from state socialism into capitalism. Organized crime in post-communist countries is rooted in massive societal upheavals which occurred in Russia and Eastern Europe in the last century, when state-society relations in the region were repeatedly and violently destroyed and recast by wars, revolutions, and failed attempts to build a non-capitalist political-economic system.

Post-communist organized crime is partly a product of the communist system, partly a product of its downfall. The communist system generated organized crime by seeking to supplant market mechanisms with bureaucratic command and instituting criminal penalties for most private entrepreneurial activities. Societies responded to the
inefficiencies of command economies by creating shadow economies. The less capable
the communist systems were to satisfy human needs, the greater was the public demand
for the products and services provided by those who conspired with each other to break
the law for the sake of material gain, and to bribe state officials to avoid punishment.
As communist systems evolved towards capitalism through market reforms, shadow
economies became major vehicles of the systemic transformation as sources of capital
and sites of established practice of market economics – and, after the fall of communist
rule, as power bases for emerging elites taking over state property.

In a national context, Russian organized crime reflects specifically Russian
conditions (in the sense of geographic and political identity, rather than ethnicity).

First, there is the issue of scale. Russia is the biggest post-communist country in
terms of territory, population and GDP, the country with the richest natural resources,
still a superpower by its nuclear arsenal, the core state of the post-communist world,
linked with myriad ties with the other 26 former communist states of Eastern Europe and
Eurasia, and still exerting significant influence on most of them. Russia’s unique
dimensions and role have turned the Russian Federation into a major hub of continental
organized crime.

Secondly, the fact that the levels of development of civil society and market
economy are much lower in Russia than in most East European states made the transition
to capitalism in Russia especially disorderly, wasteful, and plagued by social pathologies.
The ease and speed with which Russian elites managed to privatize their control over the
world’s largest state-owned economy were possible only in a country with deeply
ingrained historic traditions of state dominance over society. Russian capitalism brutally
emerged out of the ruins of Russian communism almost overnight, enforced by
presidential decrees, tearing social fabrics asunder, inflicting heavy socioeconomic losses
on most Russian citizens, free of concern for their interests or opinions. As a result, the
market economy created in Russia is notorious for its opaqueness and exorbitant levels of
corruption.

Thirdly, Russia has extremely weak traditions of rule of law. In a weak legal
culture, both state officials and citizens feel much freer resorting to illegal methods of
achieving their goals. In extreme situations, this may lead to total anarchy, but more
often, this culture of lawlessness turns crime into an informal social contract between the
rulers and the ruled. The ensuing criminalization of society becomes all the more
pervasive if the core process of the transformation is privatization of state property.

The Soviet Incubator

In the twentieth century, Russia experienced three major crime waves: the first -
and the worst of the three - was touched off by the fall of the Romanov Empire in 1917
and received powerful stimuli from the breakdown of the old order, the civil war, and the
devastation of the Russian economy. The second rose in the mid-1950s following the
death of Stalin and the ensuing partial relaxation of the totalitarian regime. The third
wave started as a side effect of Gorbachev’s perestroika and crested in the 1990s after the
collapse of the USSR.

From its inception in the November 1917 coup, the Soviet state sought to
eradicate both capitalism and organized crime and waged ruthless wars against both. By
the late 1930s, with the Stalinist regime securing nearly total control over the Soviet
society, the problem of organized crime was reduced to a minimum, but so was the
market economy. Production and trade for personal gain were not completely banned, but marginalized, limited mainly to the agrarian sector, and heavily taxed. Any attempts to go beyond the limits were severely punished as economic crimes. A private entrepreneur was considered a more dangerous social element than a common criminal: if the latter preyed mostly on citizens, the former, by its very existence, presented a challenge to the system itself.

Stalinism’s legacy of equating private enterprise with crime lingered into the 1990s, and even after the Soviet system collapsed, it took post-communist Russian legislators a few years before they got around to abolishing the provisions of the Criminal Code which punished citizens for engaging in private enterprise. In reality, of course, Nikita Khrushchev, deposed in 1964, was the last top Soviet leader who tried to stamp out the private sector altogether, regarding it as a capitalist hangover incompatible with “real socialism” and communism.

Since Khrushchev’s downfall, the Soviet state’s war against the market gradually evolved into a form of coexistence. The Stalinist setup was a historic aberration. The rulers’ heavy reliance on command methods of social control was unsustainable, and the system’s very survival necessitated liberal reforms, including the legalization of at least some kinds of private economic activity. If Stalin’s successors had had the vision and political will to steer the system along the path of such reforms, as it was done, for instance, in Deng’s China, Russia’s history might have taken a different turn in the past four decades. In the absence of such reforms, the Soviet system became increasingly dysfunctional, and evolved toward the market through the process of decay and decomposition.
The inexorable growth of market relations in Soviet society proceeded in the forms of officially banned, but actually widely practiced activities in which individuals would produce and exchange goods and services for private gain, rather than to obey the government’s orders. As Soviet society grew in size and complexity, becoming more and more consumer-oriented, the official economy, managed by the bureaucracy, found itself increasingly overgrown with webs of illicit market relations. The “shadow economy” grew to involve everyone – rank-and-file workers employed at state-owned factories and doing private jobs for cash, often using materials stolen from their official workplace, doctors performing medical services for cash, managers of state-owned shops using their facilities and their access to state supplies of goods to engage in private trade, managers of huge industrial plants bribing government officials to obtain the materials which their enterprises were supposed to receive according to plan, but would not receive in the absence of the appropriate “lubrication” of the bureaucrat, second-rank party officials falsifying data on production in the territories they controlled to receive, etc. etc. (Grossman, 1977; Shelley, 1980; Simis, 1984; Sampson, 1988)

Some forms of private economic activity (such as production and sales by farmers from their tiny private plots, some forms of construction, some services, etc.) were legal, though tightly regulated. All other forms of productive private enterprise were banned in the USSR up until the late 1980s. Private hiring of persons was allowed only for household help. Any sales for the sake of profit were liable to be punished as crimes, as were all private contracts with foreigners.

Apart from crimes committed “to fulfill the plan”, state enterprise managers and workers also engaged in criminal activities exclusively for their own private gain,
stealing materials for use and sale, or using state facilities for private business. Wholesale and retail trade was an especially fertile area for illegal private business of this kind.

Activities banned as economic crimes included theft of state and cooperative property, graft, deception of customers, “speculation” (resale of goods at a profit), etc. Most Soviet people lived with the daily knowledge that they were violating laws or at least administrative regulations, and, indeed, if those laws and regulations had been enforced to the letter, the entire country would have had to be punished with varying degrees of severity. But as a result of any attempt at such total repression, the economy would have certainly ground to a halt, and the Soviet system found itself increasingly dependent on widespread violations of its own laws for its own survival. Meanwhile, citizens were developing contrasting perceptions of legal and illegal activities: while legal, officially sanctioned social relations were increasingly associated with low productivity, general inefficiency or even complete uselessness, officially banned activities, from bribing a bureaucrat to buying beef from the backdoor of a state foodstore to contracting with a group of buddies to build a cottage, were seen as guaranteeing quality and gain.

Development of the shadow economy was one of the ways Soviet society, including its ruling class, coped with the irrationality of the political-economic system. The shadow economy was rising as an alternative system, driven by the logic of the deal and functioning by its own unwritten rules. It constantly challenged, and just as constantly interacted with, the official system based on the logic of command and obedience. The shadow economy’s very growth testified to the fact that the logic of the deal was overpowering the logic of command and obedience.
From a criminological point of view, the meaning of this gradual change in the balance of power between the state and the shadow economy was that crime was winning the war against the law. By the mid-1970s, the shadow economy spawned a phenomenon which could be identified as *organized crime proper* – a sphere of systematic, planned, structured criminal activities motivated by high profits, using violence when needed, seeking monopoly control, and involving collusion of state officials. Leonid Brezhnev was its symbolic godfather. The Brezhnev regime represented a new stage in the evolution of the Soviet bureaucracy, when this class lost its last compunctions about ideology and, feeling secure enough both from the threat of Stalinist-type dictatorial punishment and from the possibility of a popular uprising, turned to personal aggrandizement as its main preoccupation.

Organized crime emerged as a form of the *institutionalization* of the shadow economy. As the underground market grew, it vitally needed higher levels of coordination, organization, and security. It was engaged in a struggle for survival with the state; and to win in that struggle, it had to develop a more effective and durable institutional framework than the state. In a natural evolutionary process, the practice of economic crimes against the state had to become well organized – or become extinct.

At the core of this new institutional framework was a thickening web of mutual interests of three types of social actors: corrupt bureaucrats, underground entrepreneurs, and professional criminals. Their interactions can be compared to a three-story building. The top floor was occupied by corrupt bureaucrats, by far the most powerful of the three, who were using public property to amass their own private wealth. As they were gradually privatizing the state, they were forming natural business ties with underground
entrepreneurs. Underground entrepreneurs on the second floor, running the growing private economy, provided the bureaucrats with goods and services, bribed them, and drew them into business partnerships. Some of the bureaucrats responsible for the management of state enterprises, especially in the trade sector, functioned as underground entrepreneurs *par excellence*.

On the ground floor was the caste of professional criminals, headed by the so-called “thieves in law”, distinguished among the masses of habitual Soviet lawbreakers by the fact that for the members of this caste crime was their profession. The growth of the shadow economy transformed the world of Soviet professional crime, changing its mode of operation and upgrading its social status. With vast new possibilities opening in the underground market, professional criminals turned their main attention to it, claiming part of its growing wealth as racketeers, partners, or full-fledged entrepreneurs. From gangsters’ point of view, forming a business partnership with a state store manager who was running an illegal trade operation on state property was a much smarter and more promising type of activity than simply burglarizing the store. In the shadow economy, businessmen acted as criminals, and criminals acted as businessmen. The penitentiary world through which many members of both groups would pass contributed to development of ties and cultural affinities between them.

The main source of the growth of the shadow economy was, of course, *the illegal flow of funds and resources from the state to the underground private sector*. The illegal market could not possibly grow without escalation of crimes against public property, and such escalation could not have taken place without the bureaucrats’ widening
participation. Through the mechanisms of corruption, the Soviet bureaucracy was playing a truly strategic role in this process of “liberation of capital” from state control.

Predictably, the rise and institutionalization of the underground market encountered resistance from those Soviet elites whose interests depended on the maintenance of the command economy – especially the military-industrial complex. Public opinion was ambivalent. On the one hand, the notion that the nation’s ills were caused by “the mafiya” whose ranks included top government and party officials was widespread, and the idea of a crackdown on the networks of crime and corruption was guaranteed popular sympathy. The incipient democratic movement made anti-“mafiya” slogans a key part of its campaign for the overthrow of the bureaucratic system. On the other hand, the public continued to nurture the shadow economy through its daily mass participation in it, as it was the only market economy available. Soviet society hated the underground bourgeoisie, but needed it for sustenance; it despised the corrupt bureaucrats, but had to resort to bribery to buy at least some degree of control over them.

In 1982-84, during the brief reign of Yuri Andropov, the “statists” attempted a strong counteroffensive against the shadow economy and corruption. Andropov saw a massive “cleanup” of the state and a general tightening of discipline in society as a prelude to systemic reform to establish more rational state-society relations in the USSR. The KGB, the key bastion of the “statists”, was to play the role of the main enforcer of this overhaul, and all forms of dissent against the system would be crushed along with the corrupt-criminal networks. (Reddaway and Glinsky, 2002: 114-118) The design was unmistakably neo-Stalinist, instilled fear, and would have most likely encountered strong resistance from both the elites and the masses, if Andropov had had the time to
implement it. After his death, it became clear that the “statists” did not have the strength to stem the system’s decay and stop the advance of market-oriented elites fuelled by the shadow economy.

The next, and last, attempt at systemic reform, launched by Mikhail Gorbachev, would seek to rationalize the system through concessions to the inexorable rise of the market and to the popular clamour for democratic change. Gradual legalization of market relations and private enterprise was expected to bring the shadow economy into the open and transform it into an important component of a viable market-socialist system. Liberalization of the political system was thought to weaken bureaucratic dominance and enable civil society to develop. Successful economic and political reforms were supposed to remove the root causes of organized crime.

But the Soviet society was neither willing nor able to act in the way the Kremlin reformers expected. The ruling bureaucracy was concerned mostly with preserving and expanding its own dominance and wealth, whatever the means, and would accept any reforms only on such terms. The masses, lacking civic habits and a sense of responsibility for the state, were too alienated from politics and too distrustful of the powers that be to engage in sustained and purposeful political struggles to counterbalance elite dominance. The managerial abilities of the top leadership did not extend far beyond a kind of reactive and open-ended laissez-faire – removing bans from more and more of previously prohibited private activities. The intellectuals who led the democratic movement saw the overthrow of the communist rule as the most important priority and had a truly utopian faith in the magic healing power of political and economic freedom.
Gorbachev and his supporters badly underestimated the power potential amassed by the structures of organized crime. Economic and political liberalization had the effect of removing the constraints on the acquisitive drive of the core forces of the shadow economy – the corrupt bureaucracy, the underground bourgeoisie, and the professional criminal caste. With their capitals, structures, networks and experience they turned out to be formidable competitors in the unfolding grand battle for the property of the agonizing superstate.

**Crony capitalism**

The overthrow of the Communist Party and the collapse of the Soviet state gave powerful stimuli to the growth of organized crime proper – and, more importantly, to the entire range of activities which had traditionally engendered organized crime. Liberated from central control, Russian bureaucrats got virtually unlimited freedom to use their administrative posts for private gain – and the cover of “reform” to give such activities a veneer of legitimacy. The underground bourgeoisie was free to help itself to the vast and massively undervalued property of the state – supposedly in the name of replacing state-sector stagnation with private-sector efficiency. Professional criminals were now limited only by their talents and skills – and those of their competitors - in their hunt for the treasures the formal owner of which, the Soviet state, was no longer there.

The new Russian state, instead of functioning as a public institution capable of exerting at least some countervailing impact on the accumulation of private capital, became the main and often direct enabling mechanism of the accumulation process. This failure of the state can be attributed to the obvious and enormous difficulties of rebuilding a system of public authority amidst a flood of elemental privatization, and to the venality
of Russia’s new masters. But the transition strategy itself, developed in the West, readily adopted by the Yeltsin government, and then made by Western governments and IFIs a key condition for economic assistance to Russia, was deeply flawed – especially in its insistence on rapid liberation of market forces from state control and privatization of state property by any means available as the overriding reform objectives. (Wedel, 1999; Cohen, 2000; Stiglitz, 2002) Such policies, with their exorbitant economic and social costs and completely contrary to the popular sense of social justice, could not be carried out by democratic consensus – they could only be imposed on Russian society from above, in line with Russia’s authoritarian traditions and at the expense of the country’s democratic development. (See Reddaway and Glinski, 2001, Chapter 4) To be able to push the economic reforms through, the new Russian state, while yielding completely to the onslaught of the market forces, needed to isolate itself as much as possible from societal pressures.

In a comparative study of state-market interactions, Shleifer and Vishny (1999) suggest a classification of the main types of state behaviour toward the market economy: “the unseen hand”, when the state limits itself to the enforcement of market rules, “the helping hand”, when the state interferes more or less actively in the functioning of the market, acting as a coherent public body, and “the grabbing hand”, when state officials take part in the market economy for their own personal or group gain, thereby privatizing the state. The third type, requiring a large-scale shadow economy and a highly corrupt state, is the most harmful to the economy and society.

The new Russian state, which has emerged as both a vehicle and a product of systemic transition, presents a classic example of the “grabbing hand”. The numbers of
Russian state officials have not shrunk since the fall of communism – they have grown. Meanwhile, the state they served underwent extraordinary changes: its expenditures were cut, its authority was drastically decentralized, its law enforcement functions went into limbo, it proceeded to divest itself of the bulk of its property, and it abdicated its social responsibilities to the masses of Russian citizens. The priorities and organization of this new state, and the new social ethic of enrichment by any means available, virtually induced many of its servants into private ventures with their offices as their main capital assets. The value of those assets skyrocketed, for the process of privatization could only take place with the participation of the custodians of state property. Access to state officials and partnerships with them became the essential conditions for success in private business. As a Russian oligarch put it, “In Russia, you are appointed a millionaire”.

When a state is privatized, the market economy tends to grow mostly in the shadows. According to Russian survey data, the numbers of people systematically working in the shadow labour market in addition to their official employment grew from 8% of the population in 1990 to 41% in 2001. Two thirds of this “shadow labour force” are employees of shadow companies, one third are owners and managers of unregistered businesses. According to data from the 2001 survey of company managers, 38% of them systematically produced unreported goods and services, and 58% regularly employed workers on an unofficial basis (this practice is particularly widespread in the private sector).

Either by choice or as a painful necessity, the typical post-Soviet entrepreneur or manager breaks the law as a matter of habit. In a sociological survey conducted in 2001, 81% of company managers polled answered “No” to the question: “Can your company
Among the general public, only 35% gave affirmative answers to the question: “Do you think that people like you have an opportunity to increase their incomes without deceiving the state?” (Kolesnikov, 2001). According to calculations of Russian sociologists, as much as a third of the nation’s total family expenditures stays unreported to the state, totaling $40 billion a year, which is about as much as the entire federal budget. (*Shadow economy blossoms in Russia*, 2002)

The shadow economy has become a major component of the Russian economic system, increasingly competing with the officially existing economy. According to the estimates of Goskomstat (State Committee for Statistics), the noncriminal shadow economy produces at least 20% of Russia’s GNP. With criminal activities included, the estimated share of the shadow economy grows to 40-50%. (Kolesnikov, 2001; *Shadow economy blossoms in Russia*, 2002).

The most important change which has taken place in the Russian shadow economy since the fall of communism is its integration into global markets. With the abolition of the state’s monopoly on foreign trade and the liberalization of banking and currency exchange, the freedom to move goods and money in and out of Russia, both legally and illegally, has become arguably the single most important generator of private wealth since communism’s collapse. The inventiveness of the agents of this bonanza, and the ease with which they were able to overcome any official constraints, boggle the mind. The fact that they found numerous eager partners abroad, ranging from the Italian, Colombian, Albanian and other mafias to major Western corporate executives – is rather mundane.
Russian economist Mikhail Tarasov emphasizes the enormous moral damage society suffers from the shadow economy: “In the 1990s, fundamental moral values of the population were substantially deformed, a shadow way of life became habitual for a large segment of society, and the state’s authority plummeted. While many people have taken paths of crime, society has become remarkably tolerant toward shadow activities. Sociological surveys indicate that 42% don’t see anything wrong in concealing their incomes from the tax inspectorate, and 47% consider it normal to receive their wages in “black cash” stuffed in an envelope”. (Tarasov, 2002)

Organically linked with the shadow economy, corruption has exploded to turn Russia, in a matter of one decade, into one of the world’s most corrupt countries, rated No. 79 in the list of 91 countries surveyed by Transparency International (Global corruption report 2001: 236)

According to estimates of the Interagency Commission on Combating Crime and Corruption (a body created by the Security Council, consultative organ of the Russian Presidency), 2/3 of private companies are involved in corrupt relationships with public officials. The media publishes corrupt services price lists. According to some of such “ads”, an appointment with a high government official costs $1,000, the registration of a car (stolen or not), $2,000, illegal termination of a criminal case, $10,000, etc. (Kushnirenko, 1998)

To avoid detection, corruption takes a wide variety of indirect forms, such as financing officials’ election campaigns; paying elite school tuition costs for officials children; rendering privileged services to officials, etc. Many cases when an official accepts favours without responding directly by acting in favour of the person(s) involved,
or by refraining from action where such action is required by law, are not criminally liable. Systematic bribery may take place “just in case”, without requiring any specific commitment from the official involved. The official’s reward may be in a deferred form – for example, as an offer of lucrative employment in case of his dismissal. (Kushnirenko, 1998)

The findings of the major recent study of corruption, undertaken in 1999-2001 by the INDEM Foundation, a major Moscow think tank, confirm that bribery is condoned and practiced by many Russians, with an estimated 55 million people having paid bribes at some instance or another. 45% of respondents from the general public and 60% of the polled businesspeople considered corruption an essential, necessary part of life, a mechanism which “makes it easier to get things done”.

Asked to estimate the levels of corruption in various Russian institutions, respondents in the INDEM study gave the political parties, legislative bodies of all levels, regional governments, the police and mass media the highest corruption ratings (in the 20-30% range), and slightly lower ratings to federal executive bodies. Institutions such as schools, environmental groups, churches, social welfare agencies, and labour unions were deemed the least corrupt. Characteristically, “national security organs” (this category refers not to the regular police but to secret services) were also perceived to be among the least corrupt institutions, in contrast with the high corruption ratings of the institutions of the new Russian political pluralism. (Diagnostika rossiiskoy korruptsii, 2001)

The system and the bandit

A state cannot be privatized and a shadow economy cannot grow without criminal acts becoming a habitual, normal, system-forming activity of both bureaucrats and
entrepreneurs. In a market economy which grows in such conditions, crime pays immensely more than law-abiding enterprise. This becomes an especially serious problem when the center of gravity of the market economy is not production but the takeover and sale of property. In the 1990s, the Russian economy shrank by half and productive investments declined to nearly zero, while most of its valuable assets were taken over by a small group of corrupt bureaucrats and aggressive market operators, and 40% of the population sank below the level of subsistence. The full story of this greatest plunder of public property in human history remains to be told, but the evidence already exists to conclude that Russia’s privatization involved widespread and blatant violations of the law. In a half-formed, transitional state, manned by corrupt officials and swept by a tidal wave of greed, it could hardly have been otherwise. (See Freeland; Klebnikov; Reddaway and Glinski)

Summing up the new Russian realities, the 1997 Criminal Code of the Russian Federation describes the following nine categories of economic crimes (Ugolovnyj kodeks RF: 213-214):

2. Violations of law by entrepreneurs (illegal enterprise, illegal banking, bogus enterprise, money and property laundering, etc.).
3. Violations of rights of creditors (obtaining credit under false auspices, persistent refusal to pay debts, illegal bankruptcy arrangements).
4. Monopolistic and unfair competition practices.
5. Crimes in the monetary and securities sphere (illegal emission of securities, counterfeiting, etc.).
6. Crimes involving foreign currency and precious metals and stones (including illegal export of capital).

7. Customs crimes.

8. Tax crimes.

9. Crimes involving violations of consumer rights (false advertising, deception of customers, etc.).

The lawlessness accompanying Russia’s transition to capitalism made the 1990s the true Golden Age for Russian organized crime, stimulating the wild growth of its existing forms and the creation of new ones, opening up vast new vistas, and drawing large numbers of fresh recruits into the field.

Estimates of the number of criminal organizations in Russia range between 5,000 and 11,600, with the estimated total membership of 83,000. Alexander Gurov, Chairman of the Security Committee of the Russian Duma (the lower house of parliament) and a highly respected veteran of the fight against organized crime, argues that such estimates are inflated, as they include any groups which have committed criminal acts. According to Gurov, professional organized crime in today’s Russia is carried out by 300-400 “middle-level groups” and 15 criminal organizations “with network structures”. (Gurov, 2001)

The three-floor world of Russian organized crime, formed in Soviet times, went topsy-turvy, as relations between and within the three groups underwent repeated changes as a result of the Soviet collapse, intense struggles for power and property, and the expansion of the ranks of the underworld. The bureaucracy strove to retain its dominance as the official keeper of state treasure, but its main source of power and its key to success
were increasingly not in the Kremlin but in the private sector. In Yeltsin’s Russia, the bureaucrat came to share the top floor with the oligarch businessman and could ill-afford to offend him. Meanwhile, professional criminals successfully stormed the second floor, making themselves indispensable to the bourgeoisie and seeking to become its dominant echelon, and began to penetrate the top floor, too, by directly capturing elected and appointed offices of the Russian state.

While professional criminals are operating in virtually every sphere of the Russian economy and society, some spheres, such as narcobusiness, human trafficking, racketeering, contract killings, various forms of counterfeiting and fraud, prostitution, stolen auto trade, gambling, and illegal production of alcohol, are monopolized by organized crime. Arms trade, trade in non-ferrous and precious metals, banking and finance, real estate operations, security business, presenting highly lucrative opportunities to organized crime, are among the most criminalized sectors of the Russian economy.

While opportunities for organized criminal activities have boomed, so has demand for the services of organized crime. Helping effect the takeover of a business, intimidating or physically removing a competitor in business or politics, providing a krysha for a company (literally, “the roof”, protection from other criminals), putting pressure on public officials and journalists are only a few of such services. Economic, corporate, white-collar crime and professional organized crime have become enmeshed in a kind of a criminal system of social relations where the interests of the criminals themselves and the interests of a wide range of influential actors using criminal services reinforce each other.
Azalia Dolgova, a prominent Russian criminologist, presents an apt summary of the main dimensions of the role organized crime has come to play in Russian society (Dolgova, 1996: 40-41):

- it has a degree of control over governmental bodies, legislative, executive, and judiciary, influencing decision-making;
- it is extremely closely intertwined with non-criminal business;
- it has become a serious factor of social life, influencing the socialization of youth and giving jobs to growing numbers of people;
- it has become one of the main consumers of luxury goods and services;
- it is an increasingly important factor of Russia’s impoverishment through concentration of wealth and capital flight;
- its structures have become a major armed force in society, which stimulates the militarization of the state;
- it provokes and participates in armed conflicts and terrorist activities, protecting and expanding its possessions beyond Russia’s borders;
- it contributes to social and moral degradation of Russia;
- it has become an important factor of international relations.

**Putin and Beyond**

In the 1990s, the growing perception that Russia became a lawless haven for crooks and bandits damaged the legitimacy of the new Russian state, its international reputation, and Russia’s prospects for attracting foreign investments. It was becoming clear that the inability and/or unwillingness of the Russian government to take effective measures against organized crime and corruption reflected deeply rooted, systemic
features of post-communist Russia. Publicly proclaimed “wars” on crime led to the
growth of the prison population beyond 1 million people, but did not touch the
foundations of Russia’s criminal infrastructure, and the disease continued to spread.

Decriminalization of Russian society, economy and the state would require the
creation of a viable political-economic system, which is hardly possible while the
neoliberal policy orthodoxy remains in force both in Russia and globally.

Still, even under the current policy constraints, it seems possible to see some
progress towards the development of an institutional framework in Russia which would
separate, at least to some extent, the bureaucracy from business, business from the
underworld, and the underworld from bureaucracy and business. Formally, the creation of
such a framework through legislation and institutional reform has been under way in
Russia in recent years. If this process is to acquire substance, however, it should
challenge the fundamentals of crony capitalism and the interests of extremely powerful
people who have become used to the status of Russia’s new masters.

State-building became somewhat more active and purposeful with the election of
President Putin, which reflected the emergence of a new “statist” consensus in the
Russian political class. Putin called for “a dictatorship of law” to create a strong,
integrated and effective governmental authority and made reorganizing the Russian state
his main political priority. The intent is to reverse the privatization of public power by the
bureaucrats and oligarchs, and to erect a law-based structure, controllable from the top
and thus possessing a degree of independence from private interests. Putin’s state-
building project relies in part on authoritarian methods, such as massive use of force to
suppress separatism in Chechnya, the drive to secure the Kremlin’s control over the
parliament, the party system, regional governments, and mass media, the rising influence of security organs and the military. At the same time, legislative and policy initiatives have been put forward, aimed at curtailing arbitrary bureaucratic power, development of a modern legal system, creation of a strong independent judiciary, and reform of the civil service and law enforcement agencies. The government is attempting to contain the growth of the shadow economy by combining stricter law enforcement with creating incentives for non-criminal shadow businesses to go legal. These steps are part of Putin’s “European choice” – a strategic objective of integrating Russian into Western institutions.

On Putin’s orders, the Russian government launched a series of criminal investigations into the financial dealings of some of Russia’s biggest companies and most influential personages, and stepped up cooperation with foreign law enforcement agencies and international bodies to investigate money laundering. It began to look as if no one in the ruling class were safe any longer from a sudden inquiry into what he or she did in the feeding frenzy of the 1990s when many of them developed a sense of invincibility, protected by their money and connections with government officials.

Putin’s “reform authoritarianism”, as it may be termed, has made a generally positive impression on the West and received popular support in Russia. While fear spread among elites that a new version of Stalin’s 1937 purge was about to start, only a minority of Russians saw Putin’s policies as dangerous to democracy and civil rights – in fact, the public seemed to be overwhelmingly in favour of the idea of purging Yeltsin’s ruling class and cracking down on crime, even at the expense of some curbs on civil rights and liberties. This is the price of the discrediting of democracy which in the Yeltsin years became a façade for the ruthless plunder of Russia.
Well into Putin’s third year, crime and corruption were still on the rise in Russia, and the limits and pitfalls of reform authoritarianism were becoming obvious. Under crony capitalism, the elites possess enormous resources, economic, political, and technical, from capital flight to media manipulation, to effectively resist, sabotage, or co-opt “disciplinarian” actions of the top political leadership. Ultimately, the system is much stronger than the Kremlin. The President cannot afford to alienate too many of the rich and powerful, and has to make deals with some of them against the others, which makes a mockery of the professed goals of establishing rule of law in Russia, deepens public cynicism and alienation, and thus undermines institutionalization. The Kremlin’s drive to restore state control will not get anywhere without the cooperation of the bureaucracy and the regional elites. By eagerly joining this drive, they are able to effectively use it to protect and advance their own interests, shadowy ties, and corrupt practices.

Corruption may not suffer greatly under the new regime, but a crackdown on some of the most dangerous forms of Russian organized crime, such as drugs, human trafficking, racketeering, contract murders, seems to be within the capabilities of the Russian state in the coming years, given sufficient political will at the top. The state may also succeed in suppressing at least some professional criminal organizations. Money laundering and computer crime are two other areas where the Russian state, following its international commitments, can be expected to achieve some results.

Reform authoritarianism may make the Russian state somewhat more manageable and responsible, but it retards the development of Russian democracy by seeking to reduce the independence of civil society institutions, above all, the mass media. The reform authoritarian approach is avowedly elitist and reflects genuine fears of mass
political mobilization, which may threaten the fundamentals of the system by reopening
the debate over who owns Russia and on what grounds.

Still, it is not inconceivable that the frictions between the state and the corrupt
elites may escalate and draw in the citizenry, which so far has played the role of passive
spectators, hoping that the tough new “tsar” will punish the corrupt and greedy “nobles”.
Russian civil society remains too weak, unstructured, and lacking in political leverage,
and most people have learned to live with the reality of organized crime and corruption as
inescapable evils. But it is there, at the grassroots, that the real political potential for the
establishment of law and justice in Russia is hidden. Without active citizen involvement,
campaigns against organized crime and corruption will bring only limited results. With
such involvement, struggle against these social evils will be a struggle for real Russian
democracy.

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