

**WHO IS STRONG WHEN THE STATE IS WEAK:**

**VIOLENT ENTREPRENEURS IN POST-COMMUNIST RUSSIA**

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I believe that throughout the last three hundred years the Russian state has been the sole most significant agent of Russian history. A comparative analysis of Russian reforms over this period – for which we do not have enough space here – would reveal a recurrent pattern: each time after a period of experimentation and resultant instability the country's recovery and subsequent dynamism was achieved by means of the consolidation and strengthening of the state. This is not to downplay the role of other, extra-state institutions. But, again, history will tell us that despite the strong degree of autonomy and initiative periodically gained by the Russian (civil) society, as it happened, for example, in the 1860s and 1920s, its capacity to maintain order and ensure economic growth proved insufficient. This could not help but create favorable conditions for the return of the state which itself would have normally undergone a considerable transformation by the time it was called upon. Yet, the pattern of the weak state as well as the incentives for and the circumstances of its consolidation were each time different.

The present Russian condition, I argue, is that of a weak state (more radically – of no state) and of a growing demand from "below" as well as from "above" for a consolidation and strengthening of the state. One may suggest that the call for a strong state derives from the instinct of self-preservation or of the preservation of Russia in the face of a growing social disorder. But this is too general and simplistic to explain anything. Equally wrong would be a reference to some essential and eternal Russian etatist syndrome. Instead, we should try to understand what is happening in Russia in the concrete conditions of market building and how the state and society respond to this particular situation. So, what are the major symptoms of the state's weakness? What is it in today's Russia that creates a strong structural and moral incentive for the strengthening

of the state? How will the historical dialectic of the Russian state work itself out this time?

I will not aspire to give exhaustive answers to these questions, especially since the functions of the modern state are diverse, and the forces that shape it are multiple. I will confine this discussion to the domain that is and has always been constitutive for the modern state: organized violence. It is by means of studying the patterns of use of organized violence in day-to-day business activities that we can understand some major aspects of the dynamic of the Russian state as a whole. This, in turn, presupposes a long detour. Before turning to the state, we shall look, under a particular angle, at some least appealing but ubiquitous realities of post-communist Russia, those commonly but not always rightfully associated with organized crime, the mafia, banditry, and the like.

This paper is about the role of organized violence in the process of market-building and state building in Russia. But instead of offering a yet another review of the notorious Russian organized crime I will analyze institutions and practices of violent entrepreneurship, criminal as well as legal. Violent entrepreneurship can be defined as a set of organizational decisions and action strategies enabling the conversion of organized force (or organized violence) into money or other market resources on the permanent basis. If consumer goods, for example, constitute the major resource for trade entrepreneurship, money – for financial, information and knowledge – for informational entrepreneurship, and so forth, violent entrepreneurship is constituted by socially organized violence, real or potential. Violent entrepreneurship, however, is different in one important respect: throughout modern history, organized violence, unlike other resources, has been managed and controlled by the state alone, that is by the public rather

than private authority and used for public rather than private ends. That is why with the rise of modern centralized states this key resource has been largely excluded from the sphere of private entrepreneurship. In today's Russia it is back again: I intend to demonstrate that what from the macro perspective appears as the crisis of the state takes in everyday practice the form of violent entrepreneurship.

The main unit of violent entrepreneurship we shall call "violent entrepreneurial structure". In post-communist Russia such structures can be initially classified into three types: state and illegal (=units of state police and security forces acting as private entrepreneurs); non-state (private) and legal (=private protection companies); and private and illegal (=the so-called organized criminal or bandit groups). These should be seen as ideal types, the boundaries between which in real life are blurred. Despite the differences in their legal status, violent entrepreneurial structures perform similar functions and display similar patterns of action on the economic market. This derives from the specificity of their major resource – organized force. Their main function we shall define as "enforcement partnership" (silovoe partnerstvo), the term which was used by one of my respondents to describe the practice of his criminal group and which conveniently lends itself as an analytical category. Enforcement partnership is a business function of an organized group or enterprise deriving from the skilful use of actual or potential force on commercial basis employed to maintain certain institutional conditions of business activities, such as security, contract enforcement, dispute settlement, and transaction insurance<sup>1</sup>.

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<sup>1</sup> In this study I rely on the data obtained from different sources: recent journalistic publications and books, interviews with experts, businessmen, representatives of criminal groups and the state police organs as well as from personal observations. I am thankful to Andrei Konstantinov for generous help.

## The institution of enforcement partnership

The institution of enforcement partnership of the 1990s grew out of regularized protection racket of the late 1980s which, in turn, goes back to the practice of extortion in the Soviet-time shadow economy. Nonetheless, protection racket should be analytically distinguished from mere extortion: the latter lacks regularity, reference to a broader organization in the name of which the money is collected, and the claim to offer real or imaginary services in return. The surfacing of extortion and its conversion into regular observable pattern of protection racket occurred in 1987-88 as the co-operative movement, the first effect of the economic liberalization, gained momentum. Initially, co-operators and petty traders became victims of those extortionists who were formerly engaged in cards debts recovery and shadow business protection. Very soon new groups composed of former sportsmen emerged on the scene and began to earn money by selling protection to small entrepreneurs and traders at city markets<sup>2</sup>. Official statistics registered a 30 per cent increase of racketeer offences between 1987 and 1988. The scale of the phenomenon in question was no doubt much wider than its reflection in statistical accounts: according to expert estimates only every fourth victim appealed to the police organs; the police reacted only in 80% of cases; only every sixth racketeer was put under criminal charges; and only every eleventh served the sentence in prison, while the prison term for this kind of offence was rather soft, maximum three years<sup>3</sup>.

What stimulated the spread of protection racket? Because a substantial part of assets of the first private entrepreneurs originated from illegal shadow dealings of the

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<sup>2</sup> On the genesis of regular racket in Moscow see V. Karyshev *Zapiski "banditskogo advokata": zakulisnaya zhizn' bratvy glazami "zashchitnika mafii"* (Moscow: Tsentrpoligraf, 1988), p. 30-40; also M. Kleimenov, O. Dmitriev "Reket v Sibiri", *Sotsiologicheski issledovaniya*, 3, 1995, p. 115-121

<sup>3</sup> S. Diakov; A. Dolgova, eds., *Organizovannaya Prestupnost'* (Moscow, Yuridicheskaya literatura, 1989), p. 98

Soviet era, they were naturally unwilling to have any relations with the state police. The state police, in turn, generally did not regard kooperatory as legitimate object of protection – not least because of the negative Soviet moral attitudes towards private entrepreneurs – thus leaving an empty niche to alternative informal groups forcefully offering protection services.

Apart from insufficient protection of private business by the state police, another major factor that produced demand for enforcement partnership was high entrepreneurial risk caused by frequent non-returns of debts and failures to observe contracts, not mentioning the spread of swindling and theft<sup>4</sup>. The state organs were incapable of reducing these risks because of the poor definition of property rights, inefficiency of the state courts of justice (gosarbitrazh) in resolving disputes and their incapacity to enforce decisions<sup>5</sup>. The combination of high risks and the shortage of protection and justice created institutional demand for enforcement partners, a kind of business mediators who could ensure the smooth functioning of private business.

In contemporary Russian business lexicon the functions of enforcement partnership are referred to by a modest phrase "to solve questions" (reshat' voprosy). What does it involve? The first racketeer groups were mainly engaged in physical protection from other such groups and debt recovery (smotreli chtoby ne naezzhali i ne kidali). As private entrepreneurship developed and the intensity of transactions increased, the functions of enforcement partners diversified. They actively participated in business

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<sup>4</sup> The perception of entrepreneurial risks and ways of dealing with them are well reflected in a recent study of the emerging markets in Russia. See V. Radaev *Formirovanie novykh rossiiskikh rynkov: transaktsionnye izderzhki, formy kontrolya i delovaya etika* (Moscow, Tsentr politicheskikh tekhnologii, 1998), p. 116-127

talks, giving informal guaranties of transactions and demanding such from other enforcement partners involved in the deal. These tasks were performed either by organized criminal groups or state police and security employees acting on informal basis. Expert and interview sources indicate that even today the majority of high-value business agreements can only be concluded given the participation and mutual guaranties of enforcement partners. Apart from security, risk control, debt recovery, and dispute settlement, enforcement partners also came to mediate relations between the private business and the state bureaucracy, helping to obtain permissions and licenses, registration, tax exemptions, as well as using the state organs (police, fire inspection, sanitary control services, and the like) to incur damage to the companies of their competitors.

The evolution of patterns of enforcement partnership is described by the participants by three terms: "to get" (poluchat') – "to control" (kontrolirovat') – "to hold a share" (byt' v dole). A brigade of racketeers "gets" (the tribute in cash) from a business in return for protection from other such brigades. A criminal group "controls" a business enterprise when in addition to physical protection it introduces to this enterprise its own book-keeper or regular auditor who supplies information about business transactions and their value, while the group supervises and secures major contacts and transactions for a fixed share of profits. At this stage the group can be said to turn from racket to enforcement partnership. When a group of violent entrepreneurs that "solves questions" of a given business enterprise invests its money into this enterprise and introduces its representative into the board of directors, it becomes a shareholder and increases its share

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<sup>5</sup> Evidence of this is offered in the dissertation by Federico Varese. See F. Varese *The Emergence of the*

of income. If at the earlier stage enforcement partners preferred one-time big gains achieved by active intimidation and violence, the increasing competition between them and their aspiration to control the business produced incentives for creating more favorable environment for and sustained relations with the clients to achieve longer-term gains.

The institution of enforcement partnership rests on the power of deterrence – the capacity to use force and cause physical damage to those who incur financial or other losses to the businessman that the criminal group claims to protect. Thus the value of force is determined in proportion to the value of potential damage – financial, material or otherwise – that may be caused in the absence of protection. But later, if and when enforcement partners get involved in business transactions on a permanent basis and, consequently, turn from episodic damage and risk control to a broader set of tasks of securing and expanding the field of business activity of a given firm, it is the business skills of, as it were, non-violent use of force that become the source of value rather than force as such. No fixed price list for enforcement partners' services ever existed – the price varied depending upon the evaluation of risks, the income of concrete firm, the duration and nature of its relations with the enforcement partner and the latter's reputation. But the average price of "question solving" by a criminal group established at the level of 20-30 per cent of the profit of the client enterprise. When the group holds a share, it claims up to 50 per cent of the profit. The price of debt recovery stabilized at the level of 50 per cent of the sum of the debt<sup>6</sup>.

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*Russian Mafia: Dispute Settlement and Protection in a New Market Economy*. DPhil thesis. The Faculty of Social Studies, University of Oxford, Oxford, 1996

<sup>6</sup> A. Konstantinov *Banditskii Peterburg* (Petersburg, Folio-press, 1997), p. 175

For the client enterprise these payments take the form of transaction costs. Transaction costs are the costs required to transfer and secure property rights, get access to resources, and maintain business relations<sup>7</sup>. They refer to institutional conditions of business activity in the market economy and include costs of making an exchange, such as discovering exchange opportunities, negotiating, monitoring, and enforcing exchange relations, and costs of maintaining a judiciary and police apparatus that protects institutional structures of economic exchange. A large number of small and medium firms ended up being under control of criminal groups either because of shadow nature of their own economic activities or because they yielded to the intimidation tactic of criminal groups. In most cases, however, criminal groups were simply more efficient than the state organs in solving day-to-day problems of the new Russian entrepreneurs. Because of predatory tax system and inefficient state protection and arbitrage, transaction costs incurred by private rule-enforcers were lower than the costs of legal economic activity<sup>8</sup>.

### Thieves and bandits

The legendary Soviet criminal underworld, the world of thieves (*vorovskoi mir*), has received a fair amount of scholarly attention<sup>9</sup>. Formed in labor camps and prisons in

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<sup>7</sup> D. North *Institutions, Institutional Changes and Economic Performance* (Cambridge: Cambridge University Press, 1990)

<sup>8</sup> No comparative calculation of transaction costs have been made so far. Theoretical argument of the economic efficiency of informal rule-enforcers was advanced by Svetozar Pejovic. See S. Pejovich 'The Transition Process in an Arbitrary State: The Case for the Mafia'. *IB Review* 1, 1, 1997, pp. 18-23

<sup>9</sup> See V. Chalidze *Criminal Russia: Essays on Crime in the Soviet Union* (New York: Random House, 1977); D. Likhachev "Cherty pervobytnogo primitivizma vorovskoi rechi", *Yazyk i myshlenie*, Proceedings of the USSR Academy of Science, vol. III-IV (Moscow: Academy of science, 1935); A. Gurov *Krasnaya Mafia* (Moscow: Mico, 1995); A. Gurov, I. Ryabinin *Ispoved' vora v zakone* (Moscow: Rosagropromizdat, 1991); V. Radzinkin *Vory v zakone i prestupnye klany*. (Moscow: Kriminologicheskaya assotsiatsiya), 1995

the early-Soviet times, the world of thieves became a powerful informal organization that survived until the end of the Soviet system. Thieves observe a complex set of mores and prohibitions that regulate their relations with one another, with authorities and with outsiders. Prohibitions are particularly strong with reference to having a legitimate job and a family, the cooperation with prison or any state authorities, the use of violence towards other thieves unless a collective decision is taken, and personal luxury. The central element of the world of thieves is the so-called *obshchak*, the communal fund which accumulates the money acquired by theft and other illegal methods. Having donated the money to the *obshchak*, the thief then receives from it his share that makes his living. But the bulk of *obshchak* is used to support those who serve their prison term. The elite of this underworld consists of the so-called "thieves-in-law" (*vory v zakone*), whose main function is *obshchak* management and exercise of criminal justice. Recent journalistic publications claim that the world of thieves has been challenged by a new type of criminal structure – the world of so-called "bandits"<sup>10</sup>. Because of restricted space we shall not reproduce the journalistic descriptions but will turn straight to the interpretation of the differences between thieves and bandits from the standpoint of the socio-economic conception elaborated in this paper.

Unlike bandits, thieves are not engaged in violent entrepreneurship. The thief's major task is to steal (in a broad sense) and avoid being caught. They do not produce anything and tend to keep low profile unless in their own milieu. The bandit, on the contrary, considers himself a producer of certain services or at least makes such claims to his clients. His claim to being productive and his ability to affect business transactions

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<sup>10</sup> A. Konstantinov, M. Dikselius *Banditskaya Rossiya* (Petersburg: Bibliopolis), 1998

derives from his capacity to apply and manage organized force. This capacity should be conspicuous, since it represents the group's major market resource and the source of income. Hence the elaborate system of external symbolic attributes (golden decorations, sport haircuts, leather jackets, etc.) and easily recognizable assertive style of behavior. One will find it hard to identify thieves in urban public places, while bandits are easily recognizable. The thief's income comes from illegal secondary redistribution of property and consists of the appropriated by illegal means private property of other citizens or the state property. The bandit aspires to receive a share of income of other entrepreneurs, which, as he claims, has been produced under his patronage or participation of the organized group that he represents. His income, therefore, derives from the redistribution of profit and takes the form of either profit share or tax. Being a type of entrepreneurs, bandits seek regular income on the basis of a long-term business relationship and often claim to establish and enforce order, which is why they can sometimes get into direct conflict with thieves, for instance, when forcing them out of city markets and night clubs.

The ethic of thieves is a projection of values and rules of prison life into civic ("free") life. Prison and labor camp terms are the major source of thieves' authority, respect and career advancement to the highest title of thief-in-law. The bandits' mores were formed in the domain of civic life, they are more rational and practical, containing less prohibitions and constraints. The bandit's reputation and his rise to the elite position of avtoritet (authority) is built on precedents of vigorous and successful use or management of violence; of central importance is the combination of skilful use of force and organizational skills. Unlike thieves, many bandit groups ban alcohol and drugs. Instead they cultivate healthy life-style, strict discipline, and physical fitness maintained

in specially rented gyms which serve as one of the permanent meeting grounds of the group. If the system of thieves' values and mores ensures their capacity for group survival in the severe repressive conditions of the Soviet labor camps, the value system of the bandits is functionally subjected to the reproduction of the group's capacity to participate in economic life of society as violent entrepreneurs. Thus, if the world of thieves is a product of the strong repressive state, the world of bandits emerges out of illegal use of violence in conditions of the weak state.

The above characteristics are more like ideal types that in real life can display deviations and intermixing. In practice, the traditional values and rules of thieves have been undergoing change, adapting to the new post-socialist realities and adopting some features of economic rationality instead of the somewhat parochial values of the criminal sub-culture. It seems that the traditional thieves' subculture evolves together with the Soviet system that once shaped it. No doubt the actual practice of both thieves and bandits is irreducible to a finite set of rules and principles. But we needed to sharpen their differences in order to articulate the main structural principle of the so-called "bandits", their being violent entrepreneurs. This brief interpretative exercise also helps us to analytically define the genetic principle of this new type of criminal business specifically connected with Russia's transition to the market and to distinguish it from more traditional types of criminality, such as theft and illegal (drugs, arms, etc.) trade.

### **Violent entrepreneurial structure**

Thus, what is usually referred to by the Russian police organs as "organized criminal group" (organizovannaya prestupnaya gruppirovka) can also be seen as illegal

violent entrepreneurial structure<sup>11</sup>. How did they initially form in Russia? Commonplace assertions about either territorial or ethnic formation principles of such structures should be treated with caution<sup>12</sup>. One should not infer from that that the criminal group is tied to the name-giving territory (e.g. solntsevskaya gruppirovka, from Solntsevo, a Moscow suburb) or that it recruits its members on a strictly ethnic basis (e.g. the Chechens), although it is generally true that the name of the group originally refers to the type of ties that enabled initial trust between members and established their common identity. In Petersburg the first bandit-like violent entrepreneurial structures called "brigades" (brigady) grew from two types of primary ties: non-resident students' communes (zemliachestva) and sport schools. The most influential tambovskaya group was formed in the late 1980s by several students who came to receive higher education in then Leningrad institutes (including the Institute of Physical Culture) from the town of Tambov. Many of such non-resident communes from other cities (Murmansk, Vorkuta, Perm', Kazan') became centers of gravity for other sport-like violent young people willing to earn for living by the use of force. Thus emerged murmanskies, vorkutinskies, permskies, kazanskies, and the like. Groups formed by Leningrad residents recruited local sportsmen (mainly boxers, weightlifters, wrestlers, and the like) whose primary cohesion and trust had formed throughout their joint sport careers. Unlike the migrant brigades that used topographical labels, the names of the local ones derived either from the kind of sport (e.g. bortsovskaya brigada, the wrestlers' brigade) or from the name of the leader, – thus emerged malyshevskies (from A. Malyshev) or kudriashevskies (from P. Kudriashev).

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<sup>11</sup> According to MVD data, the number of organized criminal groups increased from 952 in 1991 to 6743 in 1996. Cited in A. Dolgova (Ed) *Prestupnost' i reformy v Rossii* (Moscow: Kriminologicheskaya assotsiatsiya), 1998, p. 254

Many groups have gradually lost their original direct connection with some obscure suburb, sport club, ethnicity or the founding leader. Actually, the meaning of the criminal group's name is its practical usage. In the practice of violent entrepreneurship such names are used as trade marks. The license to use the trade mark practically means the right to introduce oneself as "working with" such-and-such criminal group or with avtoritet X. Such a license is supplied to a brigade or an individual member by the avtoritet, the leader of the group, normally after the candidates have been tested in action. For example, someone Andrei F. received for the killing of the directing manager of Petersburg northern airport Rzhevka 500 USD cash and the right to introduce himself as murmanskii (i.e. belonging to the murmanskaya organized criminal group). The amount of cash may seem surprisingly low, but what really mattered in this particular case was the acquisition by the young bandit of the right to exploit the trade mark.

The name of the group has a specific function in the practice of violent entrepreneurship: it guarantees the "quality" of protection and enforcement services and refers to the particular kind of reputation that is built from the known precedents of successful application of violence and "question-solving". Because the functional necessity of the institution of enforcement partners derives from high entrepreneurial risks, the media stories about "horrible" and "omnipowerful" bandit groups only help to sustain the functional necessity of this institution and support the reputation of such groups. Before signing formal business contract, companies acquire information about each other's enforcement partners ("whom do you work with?") and set a meeting between enforcement partners (strelka). Besides that each of the participating sides would

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<sup>12</sup> See, for example G. Dunn "The Major Mafia Gangs in Russia", in P. Williams (Ed) *Russian Organized*

check whether others really belong to the group they claim to represent and seek additional information about the real power (reputation as well as actual firepower) of that group. The deal with all its formal juridical and business attributes will only be signed after the enforcement partners have recognized each other and gave mutual guarantees. Likewise, *strelka* will be immediately set if one of the sides failed or refused to fulfil its obligations. The outcome may be either a peaceful solution as to how the damage will be repaired or a violent showdown (*razborka*). But in the long term *razborka* may be a more costly and less efficient solution, especially if it leads to protracted warfare that causes severe damage – primarily to the business firms controlled by the opponents.

The reputation of enforcement partner, embodied in the name of the group or its leader, is crucial for the aversion of possible cheats in business and acts of violence, since it carries the message of unavoidable retaliation. The license to use the name to conduct violent entrepreneurship, i.e. to act as commercial enforcement partner, presupposes an informal contract between the leader and the unit (the brigade) that acts on his name. The contract includes the obligation to pay into the common fund and to follow certain rules. The group that has no license from one of the established *avtoritet* will have little success in its business and will either be exterminated or sent to prison with the help of police. The latter will be glad to use the occasion to its own advantage to report a successful operation against organized crime.

The reputation of the group enables entrepreneurship based on virtual rather than actual violence and thus a more efficient and stable practice of conversion of force into

money value. It also allows the leader to collect a kind of rent from franchising his name to brigades for their day-to-day business. A reference to the name is a crucial part of the business and presupposes an introduction ritual: "we are such-and-such" or "we work with X". The biggest name rental avtoritet in Petersburg was A. Malyshev who managed to unite in 1991 many smaller groups and brigades into a powerful malyshevskaya 'empire' whose members used his name in exchange for a share of their profits. At this stage, physical presence of the avtoritet becomes unnecessary. He can be abroad or in prison: the sign of force can function in the absence of its physical bearer.

The older the group and the higher its reputation embodied in its name, the more stable is the mechanism of rent and the less is the amount of actual violence required to perform the functions of enforcement partnership. The use value of the sign of force consists in its capacity to substitute for actual violence and thereby to increase the efficiency of violent entrepreneurship by reducing its costs and potential combat losses. This, in turn, can free investment resources and enable the transition from external control to shareholding and thus to more legal and "civilized" entrepreneurship. The prominent tambovskaya group, it seems, displays this pattern of the transformation into a business enterprise: it now owes the major share of the "Petersburg Fuel Company" (Peterburgskaya toplivnaya kompaniya) which dominates Petersburg and north-western oil and petrol market<sup>13</sup>.

There is a good deal of bias and confusion in the statistics reflecting the degree of criminal control of the new Russian market economy. The most widely cited data is that provided by the Ministry of Internal Affairs (MVD) in January 1994 with reference to the

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<sup>13</sup> *Obshchaya Gazeta*, 20-26 August, 1998, p. 4

estimates of the Russian Government Analytical Center for Social and Economic Policies. It established that criminal gangs controlled or owned (the terms were not specified) 40 thousand businesses including 2 thousand in the state sector. The majority of businesses (up to  $\frac{3}{4}$ ) paid illegal protection money<sup>14</sup>. The Analytic Center of the Academy of Sciences provided even more alarming data stating that 55 per cent of the capital and 80 per cent of the voting shares of private enterprises were transferred into the hands of foreign capital<sup>15</sup>. These and similar estimates inspired the authors of the US Center for Strategic Studies report on Russian organized crime to claim that "roughly two-thirds of Russia's economy is under the sway of the crime syndicates"<sup>16</sup>.

Later and more sober analyses, such as the study of privatization in Russia conducted by a group of scholars from US, established that these figures were inaccurate and unspecified: they were either exaggerations or in fact related to small business only. Thus, 40 thousand businesses referred to in 1994 were four times the number of mid-sized and large enterprises that were privatized at that time and twice the number of large enterprises in existence<sup>17</sup>. "Many big privatized firms are unprofitable, and even organized crime wants a risk-adjusted return", wrote the authors of the study. "It is hard to imagine why organized crime would want to control weak firms that are cutting employees, reducing capacity, confronting serious cash flow problems, and struggling to supply the kindergartens, housing and hospitals their employees need"<sup>18</sup>. Surprisingly, in the end of 1997 MVD provided the data that almost replicated that of 1994: 40 thousand

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<sup>14</sup> Cited in *Economist*, 19, 1994, p. 57-58

<sup>15</sup> *Nezavisimaya Gazeta*, September, 21, 1995

<sup>16</sup> W. Webster et al *Russian Organized Crime. Global Organized Crime Project*. (Washington: Center for Strategic and International Studies., 1997), p. 2

<sup>17</sup> J. Blasi et al *Kremlin Capitalism: Privatizing the Russian Economy*. (Ithaca: Cornell University Press, 1997), p. 116

economic subjects, including 1.5 thousand state enterprises, over 500 joint enterprises, and over 500 banks were said to be controlled by criminal groups<sup>19</sup>.

Understandably, any quantitative account of the criminal control of economy is bound to be rather rough because of the lack of adequate accounting methods and reliable information. Sociological surveys of entrepreneurs seem to draw a more accurate picture. Thus, according to the study conducted in 1996-1997 11% of the sampled entrepreneurs admitted that they were inclined to use force as a method of problem solving; 42% have experienced the use of such methods; 53% admitted regular payments for protection services, of whom more than a third described the level of such payments as substantial<sup>20</sup>. This of course does not imply that all protection money goes to criminal structures. Rather, it indicates the existence of alternative structures that provide same services.

### The legalization of private protection

With the adoption on the 11<sup>th</sup> of March, 1992 of the Federal law "On Private Detective and Protection Activity" and on the 14<sup>th</sup> of August of the "Regulation of the Extra-departmental Protection (vnevedomstvennaya okhrana) of the Interior Ministry Organs" the former state security officers legally entered the private market of protection and enforcement services. Before that former KGB and MVD cadres, professionals in the use of violence, had been participating in providing such services illegally, on par with criminal groups. It is with their involvement in the business of illegal private protection and dispute settlement that the term "roof" (krysha) gained currency. Such terms as

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<sup>18</sup> Ibid., p. 119

<sup>19</sup> *Zashchita i bezopasnost'*, 2, 1998, p. 4-5

<sup>20</sup> Radaev *Formirovanie novykh rossiiskikh rynkov*, p. 129, 174, 185

komitetovskaya krysha (KGB-provided roof), mentovskaya krysha (MVD-provided roof) and banditskaya krysha (roof provided by criminal bandit groups) entered the business vocabulary in 1991 to refer to a standard package of enforcement partnership services depending upon the origin of the supplier. Even today expert sources estimate that up to 20 per cent of FSB (former KGB) cadres are engaged in informal "roof" business<sup>21</sup>.

The legalization of protection business introduced a new agent to the Russian market – the private protection company. The policy of setting up private protection companies was a complex and perhaps well-calculated response to the difficulties of the market transition. On the one hand, the criminal market of protection and enforcement services had by then taken shape, and the demand for such services was increasing due to the rapid privatization campaign and the development of financial institutions. On the other hand, there were a number of reasons inside the state coercive institutions that produced such a response. First, the functional crisis of these structures and the moral pressure put on them by the democratic public opinion accusing them of being the foundation of the "totalitarian" state stimulated the dismissal of security professionals and their search for alternative employment. Second, the decline of the central financial support of the state security and police created incentives to search for alternative, extra-budget sources of support. Third, the involvement of the state security in the structures of private protection was initially part of the effort to infiltrate the criminal business, the tactic known as "control from within". But later, operative goals conveniently coincided with financial interests, as the legal business of private protection started to grow. Thus, the privatization of the state security forces through their involvement in violent

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<sup>21</sup> *Novaya Gazeta*, 13-19 July, 27, 1998, p. 3

entrepreneurship reflected the state crisis, but it may have also helped to discover new forms of state control of private economy, more adequate to the market conditions.

By the end of 1997 Russia had 10.2 thousand registered private protection and detective agencies with 140.6 thousand employees. In the city of Moscow and Moscow region over 30 thousand people work in more than 1.5 thousand private security structures<sup>22</sup>. The city of Petersburg and Leningrad region have 765 private protection and detective companies with over 15 thousand employed<sup>23</sup>. These figures give us the average of 14 employees per protection company for Russia overall, 19.6 and 20 for Petersburg and Moscow accordingly. In fact large companies are few, less than 20, most of which are Moscow or Petersburg-based. Private protection companies are grouped according to the personnel numbers, annual turnover, and the number of protected "objects". The large ones are those having over 100 licensed armed guards, over 1 million USD turnover, and over 15 objects; the medium have 50 to 100 guards, 500 thousand to 1 million turnover and 5 to 15 objects; and the small have under 50 guards, less than 500 thousand USD turnover and less than 5 objects<sup>24</sup>. No unified statistical survey reflecting the structure and geographical distribution of private protection companies have been published so far. From the scanty data available one may assume that the number of such companies and their size are generally proportionate to the scale of business activity of the region. Thus, the city of Cheliabinsk has 150 private protection companies; the city of Novgorod between 50 and 60<sup>25</sup>. According to expert estimates, the

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<sup>22</sup> *Operativnoe prikrytie*, 3 (9), 1997, p. 36

<sup>23</sup> *Bezopasnost' lichnosti i biznesa. Spravochnik' 98* (St. Petersburg: Agentstvo AT, 1998), p. 4

<sup>24</sup> *Ekspert*, 2, 1996, p. 22

<sup>25</sup> *Operativnoe prikrytie*, 4-5, October, 1997, p. 61

highest growth rates of this type of business were achieved in 1993-94; by the end of 1996 the market stabilized and further possibilities of extensive growth were exhausted<sup>26</sup>.

The legalization of the business of private protection also gave additional opportunities to criminal groups. Many of them either created their own protection companies or hired personnel of the companies established by the police to do part of the job – the latter phenomenon is known as "combined roofs". In Petersburg, for example, one of the oldest and most prominent protection companies "Scorpion" was set up and headed by A. Efimov (nickname "Fima"), one of the avtoritety of the tambovskaya criminal group, and actively used to draw police officers to perform the "roof" functions. "Scorpion" was closed down by the authorities in the end of 1996; its director managed to escape but was tracked down in Ukraine and arrested a year later<sup>27</sup>. In Moscow, the guards of the special police unit "Saturn" protected on the basis of a formal contract one of the avtoritety of the koptevskaya criminal group V. Naumov ("Naum") and his company "Merando" – until the successful assassination of Naumov by a rival group in January 1997<sup>28</sup>.

### Private protection company

The majority of senior staff of large private protection companies are former officers of the state coercive organs – KGB (FSB), MVD, and the Army Intelligence Department (GRU) in the rough proportion of 50, 25, and 25 per cent accordingly<sup>29</sup>. The first private protection company set up in 1991 in Moscow to help to design new

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<sup>26</sup> *Ekspert*, 11, 1997, p. 40

<sup>27</sup> *Operativnoe prikrytie*, 1(7), 1997, p. 8-9

<sup>28</sup> A. Maksimov *Rossiiskaya prestupnost': kto est' kto* (Moscow: Eksim-press, 1998), p. 260-266

<sup>29</sup> O. Kryshchanovskaya "Nelegal'nye struktury v Rossii", *Sotsiologicheskie issledovaniya*, 8, 1995, p. 96

regulations for protection business was the detective bureau "Alex". The former colonel of the army intelligence A. Makarov became its director. "Alex" strengthened its positions after its guards joined the defence force of the "White House", Boris Yeltsin's residence during the August 1991 coup. But its first serious "object" was the Moscow night club "Night Flight" defending which (unlike the "White House") "Alex" guards several times used their firearms. The following year the bureau extended its services to Petersburg where it signed contacts with five-star hotels "Europe" and "Nevsky Palace" and a number of joint companies<sup>30</sup>.

Large protection companies are in fact privatized segments of the state security and intelligence organs. In Petersburg, for instance, the firm "Protection" (Zashchita) was created by the North-Western Anti-Organized Crime Unit and is considered to belong to MVD, while the protection companies "Tornado", "Komkon", and "Northern Palmira" are headed by the former KGB-FSK officers and are, accordingly, the domain of this ministry. Though the companies are financially and organizationally separated from the state organs they have access to information and operative resources of the latter through personal connections and informal relations. Many directors of private protection companies openly admit the fact of "mutually beneficial cooperation", "friendly ties" as well as financial aid to the public security sector by the private one<sup>31</sup>. The activity of private protection companies is formally supervised by the Department of Licenses and Permissions of MVD.

What do private protection companies do? Being a type of violent entrepreneurial structure, the private protection company provides the standard set of

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<sup>30</sup> *Operativnoe prikrytie*, 1(7), 1997, p. 32-33

"roof" services to other business agents and "solves" their "questions" – the phrase also frequently used by heads of MVD- and KGB-set companies even in published interviews. These are protection, contract enforcement, dispute settlement, debt recovery, information gathering, and sometimes organization consulting. For instance, in 1992 the protection enterprise "Komkon" successfully solved the question of a large debt recovery for the Petersburg branch of "Sberbank Rossii", the biggest state commercial bank, and subsequently became its permanent enforcement partner<sup>32</sup>. The work in this field implies competition as well as co-operation with illegal enforcement partners, i.e. criminal structures. According to its director, "Alex" had a dispute with a Petersburg criminal group over a "well-known company". "On the second day after we settled there they tried to intimidate us by phone. Then set up a meeting (strelka). In the end threw a grenade into our office. But things worked out well in the end, we did not abandon the object"<sup>33</sup>.

Since criminal groups were first to discover this entrepreneurial niche, they also laid down the basic rules and terms of the game, which every newcomer in the field had to take into account. As the head of the Department of Licenses and Permissions of the Interior Ministry Yu. Buriak noted, "the business of private protection is impossible without relations with criminal structures. I do not mind strelki, they were and they will be. But I am strongly against what is called razborki (violent showdowns)<sup>34</sup>. Because of the similarity of functions private protection companies in many ways resemble their criminal rivals. In the same time, the ex-KGB and MVD structures assert their difference in that their service is more reliable, predictable, and has a more

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<sup>31</sup> *Operativnoe prikrytie*, 3(9), 1997, p. 34-36

<sup>32</sup> *Operativnoe prikrytie*, 6, 1996, p. 9

<sup>33</sup> *Operativnoe prikrytie*, 1(7), 1997, p. 32-33

<sup>34</sup> *Operativnoe prikrytie*, 2(8), 1997, p. 33

competitive price. The charge for debt recovery varies between 15 and 40 per cent of the sum of the debt<sup>35</sup>. The claim of a better quality of service rests on the professional experience of the personnel of large private protection companies who are able to use not only violence but also informational and analytic methods acquired during the career in state service. The major emphasis is said to lay not on direct physical protection or intimidation but on the preventive neutralization of potential conflicts and threats. The vice-chairman of the security service of the Association of Russian Banks A. Krylov thus described the methods of legal enforcement partners: "To recover the debt one does not need to recur to violent means – it is sufficient just to demonstrate that you have information that compromises the debtor and the channels for its dissemination"<sup>36</sup>.

The commercial success of the major protection companies derives from the conversion of the reputation of the KGB into a market resource, not only of its technical and information resources. These companies assertively advertise their links with the state security structures, increase the value of their trade marks by siding with the state organs and pay them formal as well as informal fees. In search of new opportunities for the marketing of professional analytical skills of the intelligence service private protection companies set up investment and organization consulting divisions. Since both criminal structures and legal protection companies are not only force-managing agencies but also in the long run are subject to the logic of economic action, both undergo a transformation into more civilized business enterprises with complex structures. The staff of both is divided into rank-and-file militant fighters (either former

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<sup>35</sup> *Ekspert*, 2, 1996, p. 20

<sup>36</sup> *Ibid.*

sportsmen or special task force combatants) and upper-layer managers who stylize themselves as business elite.

### Who is the Russian mafia?

In the end of the 1980s the term "mafia" emerged in the language of journalists and experts writing about the Soviet shadow economy and criminal underworld. In the 1990s the word "Russian mafia" was picked by the global media as well as by scholars. If "mafia" is used in a loose way to designate any stable organized criminal structure, then the mafia is everywhere, Russia is just one of its new working sites. A more strict usage would imply its similarity with concrete specie that originated in the nineteenth-century southern Italy. The "Russian mafia" case needs to be proved, therefore. It also depends upon definitions, but the long interdisciplinary tradition of "mafiology" in Italy and outside it only makes the case more complex. So, how do we define the mafia?

The Sicilian mafia grew out of private armies which served latifundia owners and helped them to govern peasants. With the decline of feudalism and the development of the economic market and, accordingly, of the institutions of private property, the estate managers and their armed guards became the most influential group in the countryside. They in fact managed social and economic relations between groups in large segments of Sicily. The mafia emerged as the managers and their armed men became autonomous both from the local land owners and the new-born unified Italian state and engaged in violent entrepreneurship on the permanent basis.

Two major interpretations of the nature and causes of the Sicilian mafia appeal either to the deficit of power or the deficit of trust. The first solution, suggested by

many but best represented by the anthropologist Anton Blok, explains the rise of the mafia by the weakness of the Italian state and its incapacity to enforce laws and maintain its de facto jurisdiction in western parts of Sicily. The vacuum of power, created by the progressive decline of the feudal system and the retarded appearance of the new state powers, and tensions that arose in this context stimulated the emergence of a new social figuration, the term that Blok borrowed from Norbert Elias' historical sociology<sup>37</sup>. This new figuration, the mafia, used unlicensed violence to mediate relations and tensions between different social groups. "Mafia helped manage these distinct but interrelated tensions and struggles since it provided a specific code through which members of the various social classes and groups arranged themselves"<sup>38</sup>. Mafiosi became a sort of political intermediaries.

The economic model of the functioning of the mafia was best articulated by the sociologist Diego Gambetta<sup>39</sup>. He has exposed the specific rationalities that organize the mafia's activities and identified an economy of protection business. The main precondition for the rise of the Sicilian Mafia was the lack of trust among the population, which stimulated demand for protection services. The influx of people experienced in the use of violence, former soldiers returned from the war and former guards of the feudal estates, produced the supply of protection services. According to Gambetta, the historical combination of these circumstances produced a new social phenomenon, the Mafia. The mafia business can be distinguished from other types of organized crime by its major activity – the selling of a specific service of private protection. Taken together the

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<sup>37</sup> N. Elias *What Is Sociology?*...

<sup>38</sup> A. Blok, *The Mafia of a Sicilian Village, 1860-1960: A Study of Violent Peasant Entrepreneurs* (Prospect Heights, 1974), p. 92

political and the economic model convey one simple idea: the mafia is a corollary of a complicated relationship between the state and the economic market and this relationship determines the probability of the emergence of the mafia-type structures.

Drawing on the work of Gambetta, Federico Varese compared the formative conditions and the practice of the Sicilian Mafia with Russian organized crime and argued for a substantive similarity of the two phenomena<sup>40</sup>. In the process of market transition in Russia the number of property transactions increased dramatically, while the state failed to provide adequate regulations and institutions that could guarantee and enforce property rights. This generated demand for private protection and dispute settlement. Since both factors, earlier identified by Gambetta in the case of Sicily, were present in contemporary Russia – a growing social demand for security services, on the one hand, and a ready supply of personnel formerly employed in state coercive apparatuses, on the other – the Sicilian-style organization of society, assumed Varese, was not an unlikely outcome of the post-communist transition. Another important point in the argument concerns not only the presence of the demand and supply of protection in Sicily and Russia but the way they meet: what distinguishes the mafia as supplier of private protection is its autonomy from the state as well as from its clients.

The narrow definition of the mafia and the comparative historical account of its formation do help to pass from journalistic impressionism to a more rigorous study of the mafia-like structures in Russia. Still, there are a number of significant differences that allow us to assert that the development of the Russian business of private protection

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<sup>39</sup> D. Gambetta *The Sicilian Mafia: The Business of Private Protection* (Cambridge (Mass): Harvard University Press, 1993)

<sup>40</sup> F. Varese 'Is Sicily the Future of Russia? Private Protection and the Rise of the Russian Mafia', *Archives Europeennes de Sociologie* 35, 1, 1994, pp. 224-258

diverges from the Sicilian model. The Sicilian mafia has a strong underlying clan or family structure characteristic of a southern agrarian culture. In Russia, the organization of violent entrepreneurial structures vary depending upon their origin and legal status, while the significance of the clan factor is generally low. Violent entrepreneurship in Russia lacks the traditional foundation that could enable its unvarying reproduction and is therefore subject to a rapid evolution under the pressure of political and economic context. Thus, the major difference between the present-date Russian and the past Sicilian case is the following. The Sicilian mafia emerged in the context of the weak state that was undergoing the formation process and failed to extend its sovereignty to the certain regions of southern Italy. In Russia, the structural conditions were the inverse of state formation; it was the legacy of a strong or overgrown Soviet state, the decline of which, combined with the emergence of new economic markets, shaped the development of violent entrepreneurship.

### Violent entrepreneurship and the state

Economic historians and sociologists have studied the use of violence and the role of states in the development of capitalism<sup>41</sup>. Against the background of this knowledge Russia's present experience turns much less exceptional. Historically, before markets started to grow territorial monopolies of force had been established as a result of continuous warfare. Max Weber's classic definition regards the state as the territorial

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<sup>41</sup> For example, D. North, R. Thomas *The Rise of The Western World* (Cambridge: Cambridge University Press, 1973); F. Lane *Venice and History* (Baltimore: John Hopkins University Press, 1966); C. Tilly 'War Making and State Making as Organized Crime', in P. Evans et al (eds) *Bringing the State Back in* (Cambridge: Cambridge University Press, 1986)

monopoly of legitimate violence<sup>42</sup>. Elias used this conception in his study of state formation in western Europe, demonstrating the centrality of internal pacification, i.e. the removal of violence from everyday life, for the development of peaceful economic activity of the civil society<sup>43</sup>. The monopoly of force together with the fiscal monopoly made possible the central function of the state: the enforcement of universal law and order and the exercise of justice. Exploring the economic side of the use of organized violence, the economic historian Frederick Lane identified early-modern governments with violence-using and violence-controlling enterprises which produced and sold a specific service – protection. He described the political economy of force which assisted the accumulation of capital during the pre-industrial phase. If the governments that commanded organized force received the tribute for protection they sold to the subjects of economy and trade, the latter could also gain from what appeared a mere protection racket: they received protection rent. The customers, for example, Venetian merchants, earned protection rent because of the higher efficiency of their protector as compared to that of their competitors: all merchants had to pay the tribute to avoid damage, but those who paid less for firm protection in a dangerous business environment earned protection rent as a result of more competitive prices reflecting lower costs. Thus the institutionalized protection rackets that offered lower prices to clients grew at the expense of their rivals. Lane's major point is that "during the Middle Ages and early modern times protection rents were a major source of fortunes made in trade. They were a more

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<sup>42</sup> M. Weber, 'Politics as Vocation', in H. Gerth and C. Wright Mills (Eds) *From Max Weber: Essays in Sociology* (London: Routledge 1970), p. 77-78

<sup>43</sup> N. Elias, *The Civilizing Process. Vol. 1-2. The History of Manners and State Formation and Civilization* (Oxford: Basil Blackwell, 1993)

important source of profits than superiority in industrial techniques or industrial organization"<sup>44</sup>.

The monopoly management of organized force and the economy of protection racket, so central to the formation of European states, are of course much more relevant to the distant past than to the immediate present. Theories of state formation hardly envisaged a reverse process, so powerful and stable appeared the modern states, the Soviet Union included. But today, when the Russian state is in deep functional crisis, historical sociology of state formation can inform our vision of the processes that unfold in the present. Thus, the booming of violent entrepreneurship in Russia means in fact that the state has lost the monopoly of legitimate violence. The present condition can be defined as the covert fragmentation of the state: the emergence, on the territory under the formal jurisdiction of the state, of competing and uncontrolled sources of organized violence and alternative taxation networks. The Russian state does not have unconditional priority in those very areas that constitute it: protection, taxation, and law enforcement. But organized criminal groups are not the sole and most powerful agents in the sphere of violent entrepreneurship: there are also various semi-autonomous armed formations, such as the president's personal guard, special police forces of all sorts kept by several state ministries, and numerous private protection companies.

In these circumstances the struggle with organized crime cannot radically change the situation. Would it not be more appropriate to talk about the reconstruction of the state, a process that is much more broad and complex than police measures against organized crime? All measures, political, economic, cultural, juridical, and so on that

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<sup>44</sup> F. Lane 'Economic Consequences of Organized Violence' *The Journal of Economic History* 18, 4, 1958,

work towards the restoration of the monopoly of violence and the establishment of firm public control over it contribute to the reconstruction of the state. Legal protection companies that force purely criminal groups out of the market is also part of the process. The development of the business of private protection, however, is ambivalent. On the one hand, the privatized segments of the state coercive apparatus display a dangerous tendency towards autonomization, they have an intrinsic interest in becoming autonomous market actors. Moreover, since the demand for their services depends upon the general level of business risks, the agents of private protection would harbor hidden interest in preserving the criminal sector as the source of risk rather than eliminating it. On the other hand, the state origin of many of the cadres of the private protection companies, and their close relations with the state organs carry a possibility of a new centralization and establishment of close control over the agencies of organized violence with a parallel transition to their centralized budgetary financing. The logic of the economic market has its positive aspect as well, expressed in a specific political economy of force: intensive violence is economically inefficient. Legal as well as criminal entrepreneurs of violence are compelled to take into account economic limitations of their action as well as the developing business culture. Thus, in theory, the reconstruction of the state and the pacification of society should work itself out independently of any conscious intentional project of those in power. Or, alternatively, incentives for the strengthening of the state will be directly reflected in the consciousness of businessmen and politicians – contrary to the earlier widespread beliefs that the strong state and the economic market are mutually exclusive. But in practice things are much more complex

of course that in theory – it is the degree of the state power which is crucial, for, again, Russia's history is also that of the overgrowth of the state at the expense of other institutions. We have articulated the conditions that produce a structural demand for the re-emergence of a strong state in contemporary Russia and the forces that can make this possible. But it still remains to be seen how all this will happen in practice.