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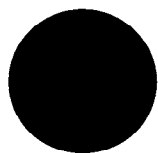
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From Guns to Briefcases

The Evolution of Russian Organized Crime

Vsevolod Sokolov

One of the most persistent images of Russia since the collapse of the Soviet Union is of a state in the grip of criminal enterprises—of thugs in leather jackets shaking down and brutalizing helpless business owners and big-time kleptocrats making off with the country's wealth while strangling its nascent free market. But this is a dated picture, and one without nuance.

Russian organized crime, like other Russian institutions, has had to adapt to the tumultuous changes that have taken place within the country over the past decade and a half and, in so doing, has developed a complex relationship with the private market. In an attempt to understand this relationship and to dispel some of the myths surrounding the Russian criminal enterprise, I have conducted extensive interviews with criminals, business entrepreneurs, government and law enforcement officials, and journalists in Moscow and St. Petersburg.

An interesting picture has emerged as a result of this research. First, the organized criminal enterprises that became such a big part of the story after 1989 did not spring from the ashes of the Soviet state, but were the evolutionary offshoots of Soviet-era criminal-business partnerships. Second, the positive economic impact of Russian organized crime has frequently been overlooked. Over the past decade, Russian organized crime has largely abandoned the purely predatory behavior that characterized the years immediately following the fall of communism. In the early and mid-1990s, criminal groups provided protection to businesses and enforced contracts when the state

was too weak and corrupt to do so. In the process, they actually helped sustain private enterprise, albeit at a high cost to business. The emergence of an economic market for private protection—in which criminal groups compete among themselves as well as with other newly formed private security agents—has stabilized the business-criminal relationship. Recently, criminal networks have taken a more businesslike approach to maximizing profit and, in many cases, have used their ill-gotten gains to fund legal private enterprises.

Getting a protection agent, known as a *krysha* (literally, “roof”), is still a prerequisite for opening a business in Russia. But according to the businessmen I interviewed, it is now possible to operate without being extorted by a criminal group, so long as one has acquired some sort of protection agent. Indeed, organized crime's loss of its monopoly on private protection rackets, combined with its move toward legitimacy, legal and regulatory business reform, and the consolidation of central power under Russian president Vladimir Putin, have greatly decreased its hold over the Russian private sector. Although organized crime remains a significant factor in Russian business life, its influence has waned relative to that exercised by rent-seeking oligarchs, large corporations, and the state security services.

The Myth of the “Red Mafiya”

Russian organized crime has often been presented by Western observers as a monolith with a global reach run by all-powerful godfathers. But the idea of a “Red Mafiya” was

rejected by those I interviewed in Russia, who stressed the existence of a constantly changing landscape of loosely structured alliances. Although the extreme lawlessness (*bespredel*) of the early and mid-1990s is finished, the criminal groups are still characterized by generational splits, ethnic divisions, shifting loyalties, and changing leadership. According to numerous Russian-language journalistic reports, criminal groups are fluid, forming around territorial or industrial interests, or on an ad hoc basis.¹ What, therefore, accounts for the view of Russian organized crime as a tightly knit mafia? In part, it derives from assumptions based on studies of Italian-American criminal networks in the United States and Western Europe that perpetuated the idea of organized crime as a shadowy, structured conspiracy of silence, a model that does not apply to the Russian experience. But it also derives from the legacy of the infamous Russian criminal fraternity of the *vory v zakone*, or “thieves-in-law.”

The *vory* established a complex and self-regulating criminal society that, at its peak in the 1930s, monopolized organized criminal activities across almost the entire Russian territory. The *vorovskoi mir*, or “thieves’ world” was a national organization with its own code of behavior, courts, laws, leaders, and initiation rites.

The thieves-in-law are greatly diminished in importance, however. Their decline, which began decades ago, is attributable to several factors. Firm and steady pressure from the state weakened the criminal networks. Through a combination of threats and propaganda, the state organs were able to make inroads against these networks, and by isolating members of organized crime in special camps they prevented them from acquiring young recruits. As one former member recalls, “The administration grabbed hold of the [*vory*], and I could see it creak and break before my very own eyes. After a few years, there was only dust.”

The *vory* also faced upheavals within their criminal network and challenges from other criminal groups. A particularly wide rift within the organization formed in the postwar years, when those who had fought against the Nazis clashed with those who had stayed behind; the latter believed that anyone who cooperated with the state violated the thieves’ code. The internecine warfare continued until the mid-1950s, when the *vory*, beaten back and shrunk in numbers, began to give way.

But probably the most important reason for the decline of the *vory* was their desire for profit through cooperation with the state—a tactic scoffed at by the “old-timers.” Splinter groups that cooperated with the authorities in exchange for personal gain had been around since the beginning, but it was in the Brezhnev period that criminal groups increasingly began to form relationships with state officials in order to profit from the burgeoning black market. By the late 1980s, the dominant crime figures were the *avtoriteti*—self-made men who had come to power by acquiring money, prestige, and personal followers, not by undergoing initiation rites or adhering to a code of conduct. The *avtoriteti* lived in lavish surroundings and drove expensive foreign cars. Their hedonistic lifestyle and cynical business “ethic” clashed sharply with the *vorys’* ascetic ideal. “How naïve the hopelessly outdated code of ‘thieves’ honor’ seems nowadays!” lamented a TASS report of the late 1980s.

Criminal cooperation with the state had begun to increase after Stalin’s death in 1953, when apparatchiks began sponsoring underground businesses in exchange for bribes, protecting them from the scrutiny of government law-enforcement agencies. The Brezhnev era (1964–82) brought increasing acceptance of corrupt business relations, graft, and a burgeoning shadow economy. Because it consistently led to product shortages, the centralized Soviet economic system benefited illegal pri-

vate entrepreneurs, and organized crime groups realized tremendous profits from the growth of the black market. Criminals began feeding off the shadow economy businessmen (*teneviki*) by providing them with protection and assistance "from below," safeguarding their businesses from other criminals (robbers, hooligans, etc.). They also provided start-up capital, ran counter-intelligence operations against other *teneviki*, and facilitated the distribution of goods. The price for these services was a protection "tax" and often a stake in the business.

Corrupt state administrators, meanwhile, protected the businesses "from above," that is, from government law enforcement agencies. In return for their patronage, they received bribes and black-market goods from the *teneviki*. Thus state, business, and crime became inextricably intertwined.

The "Wild East"

Gorbachev's reforms of the 1980s dramatically weakened the power of the central government, and as the state became weaker criminal enterprises multiplied and expanded. New criminal networks emerged to govern the burgeoning black market. As Moscow began to relinquish its control over the economy, protection from above became unnecessary, but protection from below became far more important. Criminal groups seized the opportunity to monopolize protection services and contract enforcement, and greatly expanded their influence and financial base.

The situation only became worse with the collapse of the Soviet Union, when Russian businesses found themselves operating in a state of what might be called anarcho-capitalism. Business regulations were outdated and poorly enforced. Law enforcement mechanisms were weak and corrupt. As a result, the state was unable to enforce the rule of law, or provide the market with such essential services as property protection

and contract enforcement. Organized crime stepped in to fill the void.²

This was Russia of the "Wild East," when criminal gangs swindled and killed for short-term gain. The *avtoriteti* who dominated this period were infamous for quickly resorting to brute force. As "Andrei," a member of St. Petersburg's Tambovskaya gang, told me, in-fighting among criminal groups in the 1990s has done a lot more to diminish their ranks than any government measures. In this chaotic era, rival gangs would often find themselves competing for the same "clients," and entrepreneurs were sometimes forced to pay protection fees to three or four different gangs simultaneously.

By the time privatization began in earnest, criminal groups were well placed to benefit from the massive opportunities it presented. They quickly moved to become business partners in the newly formed commercial enterprises while maintaining their role as extralegal enforcers. Racketeers now had an economic stake in maintaining the welfare of the businesses they protected, since they provided a steady source of income. As criminal groups began entering into long-term economic partnerships with businesses, they became subject to fundamental economic laws, setting their "fees," for example, according to what the market would bear.

Before long, criminal gangs found themselves competing for clients, which meant they had to offer businessmen something besides threats. In the mid-1990s, a self-regulating market for private protection began emerging in the Russian business world. Private enforcement agents, such as licensed security agencies and "outsourced" state protection services, entered the picture. The largest companies had internalized protection services by creating what were in essence private armies. Joint "roofs" between gangs and the police began to appear in the mid-1990s. These were arrangements in which a criminal gang might handle one

set of problems for an entrepreneur and a private police force would handle another. The police have even been known to take an active role in mediating disputes between criminal groups and business owners.

In 1989, it became legal for state agencies to sell protection services and policemen began entering into contracts with business cooperatives. Many police departments created an "Extra-Departmental Guard" (*Vnevedomstvennaya Okhrana*) that sold private protection services. The first private security firms also appeared in the late 1980s. By the end of 1999, 6,775 private security firms and 4,612 armed security services were registered in Russia. Both were a major challenge to what had been solely the domain of organized crime.

The development of this competitive market for private protection has stabilized the relationship between crime and business. The business of private enforcement has ceased to be a seller's market. Today, an entrepreneur has a variety of enforcement agents to choose from. In essence, business owners can now shop around for the best enforcement partners, comparing prices, services, and reliability records of private agencies, private state-run companies, and criminal groups.

A "Dictatorship of the Law"

When Vladimir Putin was first elected to the presidency in 2000, he came to office promising to be tough on corruption and organized crime. It was his intention, he said, to institute a "dictatorship of the law." Moscow attacked on two fronts, first cracking down on specific criminal activity and seizing criminal financial assets. It also took on the more arduous task of eliminating the demand for extralegal protection and enforcement activities by reasserting state control. Among other things, this meant attacking corruption within the police ranks while simultaneously pursuing legal and regulatory reform, as well as bringing regional governors to heel.

In February 2002, emphasizing the need to protect small and medium-sized businesses from organized crime and corrupt law enforcement officials, Putin ordered a 160-percent increase in the salaries of public prosecutors to boost morale and curb corruption. Last summer, the Interior Ministry's Security Office, in cooperation with the FSB, the successor to the KGB, and the Prosecutor General's Office, cracked down on corrupt law enforcement officials in Moscow's Internal Affairs Main Administration (GUVVD), described by one official as "gangs of werewolves in police uniform." And last October, Putin added amendments to the criminal code designed to suppress the trade in human trafficking, a massive revenue source for organized crime.

Paradoxically, Putin has been helped in his efforts to control crime by the growth of Russian organized crime outside the borders of the state. As criminal groups spread outside of Russia's borders in the 1990s, they found themselves targeted by numerous foreign law enforcement organizations. An Italian-led operation against money laundering in the summer of 2002, for instance, resulted in the arrests of more than 50 members of Russian organized crime groups in Europe and Canada, a freeze on 300 bank accounts used for illegal purposes, and the seizure of \$94 million in assets. Last summer, a Swiss court upheld the seizure of \$800,000 from the bank accounts of two Russian companies that were suspected of being linked to organized crime. At the same time, Moscow agreed to cooperate with South Korean police officials to combat Russian criminal groups operating in Seoul.

However, it is legal reform that, over the long term, will be the most important factor in combating organized crime in Russia. In my interviews with both gangsters and law officials, law reform was cited as a major factor in stopping the spread of organized crime. Alexander Kuznetsov, a former KGB official now employed by the city

of St. Petersburg, is confident that organized crime will shrink as the laws become consistent.

The country has been moving in the right direction in this area. A 2004 World Bank report on global business regulation placed Russia among the most successful reformers of the past few years. In October 2002, the OECD removed Russia from its Financial Action Task Force blacklist of countries that lack appropriate legislation or law enforcement mechanisms to combat money laundering. And the government has reduced the number of procedures required to start a business from 19 to 12 (and the necessary associated time from 51 to 29 days), thereby encouraging entrepreneurs to follow the law and reducing the opportunities for corruption.

The reduction in market-entry barriers has led to the creation of many new small and middle-sized businesses, which have in turn lobbied for additional regulatory reforms. As a result, Russian employment law has been revised to allow more flexibility in hiring and firing. Bankruptcy procedures have been streamlined and judicial procedures improved. Foreign investment is picking up again, after the economy's recovery from near collapse in 1998. (Some of this "foreign" investment is money being repatriated by Russian criminal groups.)

Competition between criminal groups, the appearance of private enforcers, pressure from the state, and regulatory reform have all contributed to make a life of crime less lucrative and more dangerous than before. As a result, many criminal groups and underworld figures have set up legitimate businesses, often using their ill-gotten gains to do so. Alexander Gorshkov and Eugene Vishenkov, two Russian journalists who have extensive experience in covering organized crime, told me that many criminals have tried to distance themselves from their violent pasts, learning the intricacies of the market economy and establishing ties with government officials. Crime is not just "ba-

nal racketeering," as Gorshkov put it, but a serious business. "There are no longer guys running around in gold chains and sport suits," says one reformed criminal. "Today's criminal wears an Armani suit instead of a leather jacket, and his best friend is his accountant, not his bodyguard."

In St. Petersburg in January 2002, I met Ruslan Kolyak, better known as "Puchik" to his criminal colleagues, an *avtoritet* in the powerful Tambovskaya gang. Kolyak personified the changing nature of organized crime: he was the owner of two large security firms and had various financial interests in the city's nightclubs and restaurants, yet still maintained contacts in the criminal world (a fact he strenuously denied). His business card, which he gave to me after our meeting, described him as "a lawyer and a consultant." He survived nine assassination attempts by rival gang members, only to be killed by two unknown assailants in the south of Russia in August 2003. His obituary read: "As befit a future *avtoritet*, he began with racketeering, and then found a firm foundation in legal businesses.... He called himself 'an extra-departmental police employee' and simultaneously 'the press secretary of the Tambovskaya society.' One function did not hinder the other."³

"In the past five years, we bandits have tried to become legitimate," Tambovskaya's Andrei told me. "Small-time crime and extortion no longer pays," he said, "when you can run your own business and establish good relations with government officials. Gangs have entered into larger financial structures." Andrei was pessimistic about the future: he noted that law reform had greatly decreased the scope of organized crime. In ten years, he predicted, organized crime in Russia will be limited to "traditional" criminal activities like prostitution, drugs, and arms sales.

However, the fact that many criminals are "going legit" is not necessarily a cause for celebration if they do so by corrupting government officials and using legitimate

businesses as conduits for laundering the profits from criminal enterprises. Without effective law enforcement and a transparent regulatory system, organized crime may become less violent, but no less destructive of civil society.

Unfortunately, in the history of state-business relations in Russia personal friendships and connections have all too often taken precedence over the rule of law. If legitimate businesses are forced to operate in an atmosphere of state corruption and “crony capitalism,” the very idea of “legitimacy” is undermined.⁴

Vladimir Putin’s battle against corruption has been most often associated with big business, particularly in several well-publicized struggles with business tycoons, such as the recent political battle with oil mogul Mikhail Khodorkovsky, which resulted in the latter’s December 2003 arrest on charges of tax evasion and fraud. But Putin’s efforts have not been limited to the big fish. He has often stressed the need to intensify efforts against crime and corruption in general, and he has criticized the country’s law enforcement bodies for failing to prosecute violent criminals vigorously. However, unless it continues to be backed up by legal and regulatory reform, a tough public stance with respect to organized crime is meaningless. This was where Boris Yeltsin ran into trouble. Putin’s predecessor declared several anticrime campaigns during his tenure in office but failed to institute reforms, and criminal enterprises proliferated.

Recently, Russian journalist Andrei Konstantinov published an updated version of his acclaimed bestseller, *Banditsky Peterburg*, in which he concluded that organized crime has been in decline for several years, gangster wars have subsided, and most of the criminal groups that had maintained such a strong hold over the city in the 1990s had disappeared. But while the situation has improved, Russian organized crime is far from dead.

In the provinces, where the central government’s rule is weaker than in Moscow and St. Petersburg, organized crime is still a serious problem. Even in those two central cities, street vendors and kiosk owners are subject to harassment by organized gangs. And larger businesses are still occasionally targeted by violent criminals. Last June, for example, two members of a criminal group exploded a bomb outside of a Moscow McDonalds in order to intimidate the restaurant’s owners into giving them protection money. Such incidents have become rare compared to the *bespredel* years. At the same time, contract killings of prominent politicians and businessmen remain a major problem. This suggests that the struggle for control of criminal enterprises has become largely confined to the higher echelons of power.

The Putin government is clearly headed in the right direction in controlling organized crime in Russia, and the prospect of a criminal takeover of the state—which seemed all too real a decade ago—now seems highly unlikely. But while the violence and chaos of the *bespredel* era is a thing of the past, Moscow cannot rest on its laurels. In the long run, state-tolerated corruption could be even more detrimental than violent organized crime, and the fact that many criminals have turned in their guns for briefcases makes them no less a threat to the development of Russian democracy. ●

Notes

1. See, for example, Andrei Konstantinov, *Banditskii Peterburg* (St. Petersburg: Bibliopolis, 1995); Andrei Konstantinov and Malcolm Dixelius, *Banditskaya Rossiya* (St. Petersburg: Bibliopolis, 1997); Nikolai Modestov, *Moskva Banditskaya* (Moscow: Tsentrpoligraf, 2001); Andrei Konstantinov, *Banditsky Peterburg 1703–2003: Itogi Epokhi* (St. Petersburg: Bibliopolis, 2004).

2. For economic analyses of Russian organized crime and private protection enforcement, see Federico Varese, *The Russian Mafia: Private Protection in a New Market Economy* (Cambridge: Oxford University

Press, 2001); Vadim Volkov, *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism* (Ithaca, N.Y.: Cornell University Press, 2002). Criminologists Anton Block and Diego Gambetta have shown that a similar demand for private protection resulted in the growth of organized crime in Italy. See Anton Block, *The Mafia of a Sicilian Village, 1860–1960: A Study of Violent Peasant Entrepreneurs* (New York: Harper & Row, 1975); and Diego Gambetta, *The Sicilian Mafia: The Business of Private Protection* (Cambridge: Harvard University Press, 1993).

3. Argumenti i fakti, “Vstrecha ne sostoyalas’,” Artem Kostyukovsky, August 22, 2003, <http://www.aif.ru/online/spb/522/04>.

4. To make the distinction between corruption and organized crime clear: corruption implies an illicit pact with the state. Organized crime, at least in its “pure” form, operates outside of the state because it is powerful enough to avoid making alliances. In reality, organized crime rarely achieves that level of power, and there is almost always a need to bribe or co-opt agents of the state, resulting in a frequent overlap between these phenomena. The fact that criminal entities now enter into more contracts with state entities than in the 1990s indicates the growing power of the state relative to other protection agents.