The Boss: How Yuri Luzhkov Runs Moscow

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Since his appointment as mayor in 1992, Yuri Luzhkov has transformed Moscow from a drab, oppressive colossus into a gaudy symbol of post-Soviet Russia. More than ever before, Moscow is the economic, political, and cultural hub of the nation. Banks, politicians, cultural and intellectual institutions, information and media centers, fashion trends, and popular culture all center in the city.

Luzhkov has been instrumental in making Moscow far richer than other parts of Russia. The monthly cash income of the average Muscovite is more than fifteen times greater than that of the average inhabitant of Ingushetia, the country's poorest region. Although the city has only 6 percent of the country's population, in 1998 Moscow accounted for 13 percent of Russia's gross national product and 80 percent of its financial resources. Approximately $6 billion in foreign investment flowed into Moscow in 1998—about half the total for the country as a whole. Foreign investment in Moscow in 1998 was approximately $683 per resident compared to a national average of $80. As a result of these accomplishments, Luzhkov is widely regarded an effective manager, a reputation in which he revels. When former mayor Gavriil Popov appointed Luzhkov to a high post in 1990, members of the Moscow City Council asked him whether he was a democrat, a communist, or perhaps an independent. "I have always been loyal to one platform and will remain loyal to one platform," he stated, "The administrative platform." In 1997 the mayor told a British journalist that his role model was former Chicago mayor Richard J. Daley.1

Luzhkov's accomplishments have made him a national political figure. The mayor is one of the few major non-Communist politicians who have a political base independent of President Boris Yeltsin. In Luzhkov's first try for reelection in 1996, he received almost 90 percent of the vote.2 In June 1999 polls by the magazine Ekspert, Luzhkov was selected as Russia's most influential businessman as well as its most influential politician.3

As the end of Boris Yeltsin's term in office approaches, Luzhkov has positioned himself to run for the Russian presidency. Nationwide public opinion polls...
consistently show him to be one of the leading candidates. At the founding of his Fatherland Party in December 1998, Luzhkov cited his success in Moscow as demonstrating that he is the best man to lead Russia out of its economic crisis.

In this article, I examine Luzhkov's record as mayor and try to determine whether the way he has run the city might serve, as he claims, as a model for governing the country. I argue that, in addition to Luzhkov's effective leadership, there have been four keys to his success:

- The unique circumstances of the Soviet Union's collapse, which enabled Moscow's leaders to take over the resources previously controlled by the Communist Party
- City hall's extensive involvement in business entrepreneurship, facilitated by its patrimonial control over property
- The massive inflow of resources from Russia's regions, the federal government, and abroad resulting from Moscow's unique importance in the Russian Federation and Luzhkov's alliance with Yeltsin, as well as the high concentration of major domestic and foreign businesses
- The highly criminalized political and business climate in the city, which has brought millions of dollars of "dirty money" into Moscow, and ensured that organized crime plays an important role in policymaking

I conclude that the circumstances are unlikely to be duplicated at the national level, and that since the August 1998 economic collapse, they in large part no longer obtain in the city itself. Luzhkov's policies would be unlikely to slow Russia's economic decline, ameliorate its acute social problems, or halt the fragmentation and erosion of the state's authority.

**Yuri Luzhkov: A Profile**

Short, burly, bald, blunt, and tough, Luzhkov, who is what Russians call a real *muzhik* (a man's man), has created a large personal following. He cultivates an image of physical vigor to highlight the contrast with the enfeebled Boris Yeltsin. He often works late into the night and on holidays. In his spare time, Luzhkov boxes, plays tennis, or goes horseback riding. (The mayor holds a Master of Sports degree in gymnastics.) Russian men seeking to imitate Luzhkov's macho image can purchase cologne *Mer* (mayor), which is widely available in the city's retail stores.

The mayor has a reputation of getting things done—even to the smallest detail—never mind exactly how. Luzhkov has spent lavishly in support of culture and the arts. He has fixed broken street lamps, filled potholes, repaired sewers, restored crumbling historic facades, and ordered shopkeepers to install Christmas decorations outside their businesses. Typical of his micromanaging were the spring 1999 celebrations commemorating the birth of Russian literary hero Alexander Pushkin: the city offered Moscow shop owners two official posters of the beloved writer to display in store windows. Any shop failing to display one could expect a fine from city hall. Such is Luzhkov's reputation in Moscow that, according to one anecdote, Luzhkov seeded the clouds outside the
city so that Moscow’s 850th anniversary would not be marred by rain. In such a
centralized system, Luzhkov deals quickly and severely with political enemies.
One day after he publicly criticized the mayor, for example, the premises of for-
mer police chief Arkady Murashev were visited by tax inspectors.

To ensure that Moscow has sufficient food, fuel, and other supplies, Luzhkov
has placed high priority on cultivating good relations with other regions and coun-
tries. The city’s extensive cooperation with other areas is intended to lessen the
traditional hostility of the provinces toward Moscow, especially if Luzhkov needs
regional leaders to deliver the vote in a presidential race. By the end of October
1998, Luzhkov had concluded economic cooperation agreements with more than
seventy of Russia’s eighty-eight other regions. Former prime minister Kirienko
recently alleged that between 1994 and 1998, the Moscow mayor’s office guaran-
teed almost 2 trillion rubles in city loans to other regions—many of which were
interest free and less than half of which have been repaid—as “payment for solv-
ing political problems.” Moscow’s partners abroad include ten members of the
Commonwealth of Independent States, Lithuania, Crimea, and unrecognized polit-
ical entities such as Gaugazia and the Transdniester region of Moldova. The city
buys cotton from Tajikistan, and Ukraine sends the city large amounts of food.

At a time when there is deep division within the society over the meaning of
“Russia,” Luzhkov understands that there is an ideological void that needs to be
filled. He replaced Soviet-era place names with their traditional Russian appella-
tions and required Russian language signs on every store in the city. He erected
new monuments to the nation’s achievements, such as the Victory Memorial on
Poklonnaya Gora, completed on the fiftieth anniversary of the end of World War
II. Under Luzhkov’s leadership, Moscow has invested in the construction of Rus-
sian-speaking schools in the Crimea. The city also has contributed 28 million
rubles for the overhaul of the antisubmarine cruiser Moskva at the Nikolayev ship
repair facility on the Black Sea and regularly pays for fuel costs for fleet combat
exercises at sea.

Moscow’s metamorphosis, however, has been accompanied by brazen, corro-
sive criminality. The city is rife with criminal gangs and protection rackets.
Bribery, kickbacks, and secret overseas bank accounts are daily facts of com-
mercial life, and car bombs and contract murders are common ways to settle dis-
putes. Neither the corruption nor the violence has been brought under control by
the city’s law enforcement authorities. In fact, critics accuse city authorities—and
sometimes the mayor himself—of abetting those activities. Complaints of police
torture to extract confessions, widespread bribe taking, and the failure of the crim-
inal justice system to police the police are common.

Moscow’s police are widely accused of harassing the city’s poor and non-
Russian minorities, especially people with darker skin. International human rights
groups have harshly criticized Luzhkov’s revival of Soviet-style residency per-
mits, or propiska, even though the Russian constitution and federal law forbid any
restrictions on where people can live and the Constitutional Court has ruled
against their use three times. Now, a permit is available only to those willing to
pay thousands of dollars to buy property or pay certain “fees.” A November 1997
municipal decree threatens severe fines for firms hiring unapproved “foreigners”—that is, any Russian citizen who does not have permission to live in the capital. After the outbreak of hostilities in Chechnya in summer 1999, Luzhkov signed a decree that directed the deportation of nonregistered people from the capital. Moscow police subsequently denied registration to some 10,000 residents—many of them of Caucasian ancestry—and forced them to leave the city by train or car.

Ascent to Power

Luzhkov rose to prominence during the events leading to the collapse of the Soviet Union, when his managerial experience and political skills enabled him to forge ties with a wide variety of people seeking to open up the political and economic life of the capital. Many of those connections help him rule the city today.

Luzhkov’s education and career path mark him as a product of the progressive wing of the Soviet administrative apparat. Trained as an engineer, Luzhkov graduated from the Gubkin Oil Institute in Moscow in 1958. While a student he took odd jobs at a local housing management bureau. After graduation he secured an appointment at a plastics research institute and eventually became head of the laboratory. From the institute he was elevated to the USSR State Committee for the Chemical Industry, where he remained for twenty-two years. In 1975, Luzhkov turned to politics and was elected to the council of Moscow’s Babushkinsky district. Two years later, he became a member of the then virtually powerless Moscow City Soviet (city council). In 1978, he was elected a people’s deputy of the rubber-stamp Supreme Soviet of the Russian Federation. Although Luzhkov was a member of the Communist Party, he never belonged to its upper echelon.

Luzhkov stepped up his political involvement with the advent of Gorbachev’s perestroika, when he accepted an invitation to chair the City Soviet’s Commission on Consumer Services. This spare-time assignment drew him into a political and social scene in ferment because of Gorbachev’s policies and brought his organizational skills to the attention of his superiors. Late in 1986, the Moscow Party Committee transferred him to full-time government work as one of the deputy chairs of its ispolkom (executive committee). Boris Yeltsin, the city’s party boss, broke the news to him personally the first time the two met. Luzhkov’s new portfolio encompassed individual labor activity—one of the few areas where Gorbachev’s policies were having positive results. One of Luzhkov’s first acts was to set up a bureau to license cooperative firms for authorized tasks such as catering, parcel deliveries, and waste recycling. In the first four months of 1987, Moscow exploded from four cooperatives to a thousand, the most in the Soviet Union. Luzhkov especially took under his wing new entrepreneurs who surfaced from the underground economy and ordered his subordinates to cut through the red tape.

In May 1987, an impressed Yeltsin shifted Luzhkov to first deputy chair of the ispolkom and head of Mosagroprom, the agency for supplying the local population with food. Luzhkov loosened traditional command methods by making modest changes in incentives and administrative formulas and acquitted himself well. His boldest experiment was to end the Communist practice of “mobilizing”
Moscow residents to truck vegetables in from the fields. Instead, Luzhkov substituted paid pickers, drivers, and handlers. The USSR People’s Control Committee threatened to have him prosecuted for violating Soviet laws until he talked his superiors into sanctioning the initiative. Luzhkov regretted Yeltsin’s ouster as Moscow party leader in November 1987. After a year without contact between them, Luzhkov shook the outcast Yeltsin’s hand at the Red Square holiday parade on 7 November 1988. They passed several hours in conversation and expressed the wish to work together again.12

In March 1990, the election of a new Moscow soviet (Mossoviet) dominated by the anti-Soviet Democratic Russia coalition turned the city’s politics upside down. Luzhkov, who declined to run in the election, objected to the populist rhetoric of the insurgent democrats and decided to quit his post. Gavriil Popov, the liberal economist whom the City Soviet had made its chair, tried to retain Valeri Saikin, the incumbent head of the ispolkom. Saikin, however, had alienated Democratic Russian leaders in the post-election infighting. This gave Yeltsin, now a member of the Russian parliament and soon to become its speaker, the opportunity to step in, introduce Luzhkov to Popov, and recommend him for the post. On 26 April 1990, Luzhkov was installed as head of the ispolkom and became the head of the city government.13

Luzhkov and Popov worked well together for the next two years. Luzhkov deferred to Popov on high politics and devoted most of his time to running the city. In spring 1991, having won approval for the institution of a popularly elected mayor with powers patterned on those of the Russian president, Popov selected Luzhkov as his running mate. On 12 June, the same day Yeltsin was elected president of Russia, Muscovites elected Popov mayor and Luzhkov vice mayor, with two-thirds of the votes cast. After the August 1991 coup attempt, Luzhkov became a member of the Committee for the Current Management of Russia’s National Economy, part of the country’s interim post-putsch federal governing structures. There he was responsible for the agroindustrial complex, trade, foreign economic relations, and social policy. In 1992, President Yeltsin appointed Luzhkov Moscow’s mayor when Popov resigned, sparing Luzhkov the need to compete in an election demanded by the Mossoviet.14

Supermayoralism

The rulers of Moscow after the fall of communism—largely democratic intellectuals and reformist bureaucrats—had trouble establishing their authority and rapidly fell out with one another after they came to power.15 The victorious coalition disagreed over Popov’s plans for the privatization of city housing and com-

“In contrast to the strong mayoralty, the Moscow City Duma has largely been docile—even more so than its predecessor, the Mossoviet.”
commercial assets and over how best to reorganize Soviet-era institutions. The Maly Soviet, the smaller standing subcouncil of the 500-member Mossoviet, adopted dozens of resolutions challenging Popov’s authority.16

After he succeeded Popov, Luzhkov addressed the problem by overhauling the city’s political institutions. To replace the old, unwieldy Mossoviet, the December 1993 municipal elections (a sideshow to the national parliamentary elections and the referendum on a new Russian constitution) approved the creation of a new city duma limited to thirty-five full-time deputies chosen in districts within the city’s administrative districts (okrugs).17 The 1993 reform of the city’s political institutions largely formalized the strong executive authority that Popov and Luzhkov exercised during the previous two years mostly by fiat. The result is a supermayoral system—a powerful elected mayor with a large executive apparatus and a weak legislature that allows Luzhkov to act largely without institutional constraints. Although the city charter provides for a mayor and a premier, in practice formal executive authority is fused: When Luzhkov was promoted from vice mayor to mayor, he kept the premiership he had held under Popov.

Despite the elections and the collapse of the Communist Party, the continuity of the current Moscow political establishment with the more dynamic and adaptable fragments of the city’s Soviet-era elite was a key fact of Moscow politics. One study of four subgroups of Moscow leaders—city hall “ministers” and subprefects in the executive branch, deputies in the Maly Soviet and the Moscow City Duma created in 1993—found that 23 percent of the ministers had been members of the Communist Party of the Soviet Union (CPSU) apparatus and 23 percent had been members of the Komsomol. Twenty-five percent of subprefects had served in the CPSU bureaucracy, 28 percent in economic management positions during the Soviet period, and 10 percent each in the Komsomol and the armed forces. However, the proportion of Moscow’s new leaders with roots in the Soviet-era nomenklatura, according to available data, is less than that in the federal government.18

The influence of the mayor’s office is further strengthened by the efficiency and cohesiveness of Luzhkov’s inner circle, which—in contrast to the people around Yeltsin—has clear lines of responsibility, shows little signs of internal squabbling, has largely not been marred by scandal, and has turned over very little since 1992. The staff comprises several distinct groups, some of which focus on city affairs and some on Luzhkov’s national political activities.19

In contrast to the strong mayoralty, the Moscow City Duma has largely been docile—even more so than its predecessor, the Mossoviet. Although it sometimes opposes Luzhkov—members have often criticized the mayor for favoring his own pet projects instead of improving housing and the schools—the body has usually worked cooperatively with him. This passivity has been encouraged by the lack of a strong party system. In the December 1997 elections for the City Duma, pro-Luzhkov candidates won twenty-eight of the thirty-five seats.

**Neighborhood Politics**

The same strains that characterized those between the mayor’s office and Mossoviet—acrimonious disagreement over the division of powers, and partisan and
factional rivalries—marked relations between city hall and Moscow’s neighborhood (raion) leaders in 1990–91. As a result, Popov reorganized neighborhood government into ten administrative districts (okrugs). Under the new structures:

- A prefect appointed by the mayor would head each okrug. Each prefect would attend cabinet meetings and have the rank of minister. The prefect of the Central Administrative Okrug—the district including the Kremlin, many other government buildings, and the largest concentration of Moscow’s commercial activity—would hold the rank of deputy premier. It was the duty of each prefect to execute the decrees, orders, and directives of the mayor and government of Moscow.

- Subprefects appointed by the ten prefects—135 in the city—would head administrative areas or minidistricts within the okrugs and would “direct and coordinate” the work of local agencies as well as execute the policies of the mayor, enforce environmental codes, and assist the police in law enforcement. In 1993, a further reform instituted by Luzhkov established an elected municipal assembly of five to seven “advisers” in each administrative area. The advisers would consider neighborhood problems and approve budget estimates for the minidistrict. Subprefects would still be appointed by the mayor, but with the consent of the municipal assembly. If the advisers refused to approve the mayor’s choice, he was entitled to appoint an acting subprefect in his place.20

Since their creation, these neighborhood institutions have largely served as transmission channels for directives from city hall. The weakness of local movements and parties and widespread popular indifference to and ignorance of local politics have encouraged this one-way flow of authority.21 The Central Administrative Okrug, backed by the financial clout of foreign investors and domestic businessmen that are the bedrock of Luzhkov’s support, has received the lion’s share of city hall’s time and resources. This happened despite the fact that the population of the central okrug is smaller than all but one other okrug in the city.

Either Good News or No News

Although Moscow residents have access to about 150 newspapers, owned by a wide variety of competing political, industrial, and financial groups, Luzhkov uses extensive media holdings, including electronic and print outlets, to advance his interests.22 City-controlled media praise Luzhkov, attack his opponents, and ignore the shortcomings of the city, the mayor, and his government. Luzhkov gives interviews mainly to journalists who support him. Although media outlets controlled by anti-Luzhkov forces are more critical of the mayor, with the exception of the media influenced by Luzhkov rival Boris Berezovsky—including Russian Public Television (ORT) and the newspaper Nezavisimaya Gazeta—even they are often reluctant to fault the mayor. Offending city hall can bring retaliation. In addition to controlling the printing and distribution of many newspapers regardless of ownership, for example, the city owns the land on which many media outlets have offices.

The mayor or his team sometimes directly decides what is to go on the air. Every night, according to a former anchor on TV Center, her script was vetted by
the station for loyalty to Luzhkov. However, more frequently Luzhkov indirectly manipulates the media:

- A television channel or publication can be told to report information unfavorable to city hall, but can attach critical comments to it.
- More frequently, news critical of the mayor is simply not covered. Pro-Luzhkov media outlets have largely ignored Moscow’s financial troubles since the economic collapse. The federal government’s problems have been described extensively. Crime and corruption in Moscow are rarely discussed.
- Luzhkov has intimidated the media to refute the charges of corruption. He has published rebuttals in the press, usually stating that his accusers were misrepresenting the facts. The mayor also has turned to the Moscow courts to challenge some corruption allegations and won every case.

Relations with Federal Authorities

Essential elements in Moscow’s prosperity have been the lucrative subsidies and privileges that it receives from the federal government as a result of its status as the national capital. That relationship has been bolstered by the political alliance between Luzhkov and Yeltsin, which has enabled the mayor to act with significant independence.

Moscow’s relations with the federal center are not clearly spelled out in the constitution. Nor, in contrast to most Russian Federation members, are they established by treaty. (Yeltsin has a representative in Moscow, but the president usually ignores him.) Although numerous functional federal agencies are directly involved in city administration, in general the overlapping division of authority between Moscow and the federal government allows the city a significant amount of autonomy. The federal government also has consciously allowed the city to take actions that sometimes have directly contradicted federal policies to which it has held other regions.

As a rule, the city resolves issues through direct negotiation with the federal government. In this manner, the city acquired control of its subway system from federal authorities in 1992. The support of the national government, in turn, has been critical for the implementation of key decisions in the capital, such as the creation of the strong mayoralty in 1991, the reorganization of neighborhood government, and the privatization of city property. Luzhkov also has allies in the federal government on whom he can call when he needs special favors. He uses his access to the Kremlin to lobby on behalf of commercial banks and other businesses in Moscow with which he has close ties.

Fiscal Ties

As Russia’s richest and most important economic center, Moscow is the largest single federation contributor to the national budget and one of the federation’s few net donor regions. Taxes paid by the city make up about 30 percent of the federal consolidated budget, giving the city considerable leverage in bargaining with the center. It seeks to keep as much of its tax revenue at home as it can and to make sure that the money returned by the center comes with as few strings as possible.
Moscow depends heavily on the money it receives back from the center—about 15 percent of its total annual revenue. The largest sources of federal support are net mutual payments, which compensate for costs imposed by the central government on the city, and payments to fund certain federal programs, mostly investment in social infrastructure and agricultural support. A 1993 law on the status of the capital requires the federal government to provide a special subsidy to cover direct costs caused by Moscow’s status as the national capital—many Russian government buildings occupy prime Moscow land without paying rent to the city. Luzhkov allies in the federal government, such as former tax minister Georgy Boos and Central Bank Chairman Viktor Gerashchenko, also sometimes lobby for financial support for the city.27

The federal government uses the leverage it gets from subsidizing Moscow to shape the capital’s political and economic policies. In 1997, for example, it prohibited Moscow from establishing its own road fund, halted expansion of the Moscow metro, and refused to help the city create a food reserve. The center, conversely, sometimes needs the support of the Moscow government to implement its decisions.

There have been frequent squabbles over the level of federal financial support:

• In early 1995, the federal government, led by Luzhkov’s rival Anatoly Chubais, substantially reduced its subsidy to the city, causing the mayor to accuse the federal government of organizing an economic blockade and trying to strangle Moscow. The reduction came as Luzhkov and Chubais quarreled over privatization policy and the Kremlin was warily eyeing Luzhkov’s increasing independence and economic power.

• When the federal government in 1997 proposed slashing the subsidy paid to the city to compensate for costs involved in its being the national capital, Luzhkov threatened to raise the taxes of federal ministries based in Moscow.

• After long paying little attention, federal authorities have in recent years complained about the lack of transparency in the city’s budget process. Since the federal government uses official budget figures to calculate how much it pays out in subsidies and how much to expect in taxes, the capital’s extensive reliance on extra-budget funds distorts revenue-sharing calculations, thereby allowing Moscow to receive higher subsidies than it actually warrants.

Personal Relations
The key to Moscow’s favored status in the federal government has been Luzhkov’s long, but frequently difficult, alliance with Boris Yeltsin.28 Although Luzhkov has often criticized the federal government or specific officials, until recently he has largely avoided criticizing the president directly and usually taken care not to politically upstage him. In return, Yeltsin usually has given Luzhkov a free hand to run the city’s economy virtually as he pleases.

Yeltsin has often defended Luzhkov from criticism, especially charges of corruption. In 1993, when members of the president’s crime commission tried to convince the president of Luzhkov’s involvement in criminal activity, Yeltsin react-
ed quickly. They “dragged in something about Moscow and dumped it on the president’s desk,” according to one newspaper. “One person who saw this said the president responded by snapping in a slightly irritated voice, ‘Moscow is not to be touched.’ Or words to that effect.”

Although the mayor has followed policies that contradict federal practice on key issues, Yeltsin can nevertheless point to Moscow as a showplace of his reforms, especially on social welfare issues such as food and housing. Moscow has also served the Kremlin as a surrogate in dealing with politically sensitive issues, when quick action was needed, or when seeking to circumvent the State Duma—for example, when the city gave assistance to Sevastopol and first aid to Budennovsk, at Yeltsin’s behest, during the Chechnya War.

“In 1997, Gazprom payments alone provided 15 percent ($1.2 billion) of city revenue.”

Luzhkov also has been useful to the president:

- In August 1991, Luzhkov supported Yeltsin’s defiance of the coup plotters. After rebuffing a direct offer to support the junta, Luzhkov and his pregnant wife, Yelena Baturina, rallied to Yeltsin’s side inside the besieged Russian White House.

- In October 1993, Luzhkov provided Yeltsin with vital political support when the Russian president ordered tanks to suppress the violent insurrection of the Russian parliament. The mayor sat in Yeltsin’s councils of war and cut off the encircled White House’s electricity and water. Luzhkov, one of three government agents at the last-minute talks brokered by Patriarch Aleksii II at the Danilov monastery, demanded strict punishment after the insurgent deputies’ capitulation and used local constables and vigilante groups to close offending newspapers. Many Communist and patriotic leaders have never forgiven Luzhkov for the allegedly indiscriminate shooting of insurgents by police loyal to the mayor.

- In 1996, Luzhkov was a leading supporter of Yeltsin’s reelection. There has been tension between the two leaders when Luzhkov has, from Yeltsin’s point of view, threatened the president’s political position. In late 1994 and early 1995, concern that Luzhkov might bid for the presidency led Yeltsin to initiate a campaign to discredit the mayor. A December 1994 raid by the Presidential Security Service on the headquarters of Most Bank—one of Luzhkov’s main financial backers—was followed by a press campaign denouncing Luzhkov’s political ambitions and alleged ties to organized crime, as well as criticism by Yeltsin of the mayor’s alleged inability to control crime in the city. Yeltsin and Luzhkov eventually reconciled, but relations took a permanent turn for the worse in early 1997, after Luzhkov’s one-sided election victory and public signs that he was positioning himself to succeed the president. Relations further deteriorated in September 1998, when Luzhkov opposed Yeltsin’s effort to
reappoint Chernomyrdin as prime minister. Moreover, the Kremlin was outraged in May 1999 when Luzhkov allies in the Duma voted to impeach the president, and by Luzhkov’s strong defense of Yuri Skuratov, the scandal-tainted prosecutor general who was investigating allegations of corruption in the Kremlin.34

Law Enforcement
Moscow’s law enforcement bodies—the courts, the Procuracy, the Federal Security Service (FSB), and the Ministry of Internal Affairs (MVD)—are formally subordinated to the regional branch of the corresponding federal structures or directly to the federal center. They are vital instruments of federal authority in the city, although they often compete with one another. The MVD is primarily responsible for police work in Moscow and for maintaining order, but a presidential decree authorizes the FSB to combat economic crimes. The MVD Criminal Investigations Division, subordinate to the Moscow Regional MVD, has sometimes been at loggerheads with the Regional Department for Fighting Organized Crime (RUBOP), which answers directly to the MVD.

In practice, federal authorities usually appoint and remove the heads of these law enforcement bodies after consultation with the mayor, who uses his influence over the agencies to buttress his authority. The city pays a portion of the salaries of the Moscow police force, even though it is organizationally a part of the federal MVD. By agreement with the federal government, Luzhkov may have direct control over some special troops during a state of emergency. He also may have the loyalty of the armed paramilitary forces created by Moscow’s major businesses, such as Most Group, which reportedly defended key sites in the city from insurgents during the October 1993 insurrection. The situation is further complicated by the fact that Luzhkov reportedly has created a separate police force under the exclusive control of the municipal authorities.

The Yeltsin administration has used its leverage over the law enforcement agencies to rein in Luzhkov when he has become too independent:

- The Kremlin fired Moscow prosecutor and Luzhkov ally Ponamarev, GUVD (militia) chief Pankratov, and Moscow region FSB chief Savostyanov for being too close to Luzhkov during the Kremlin’s 1994–95 campaign against the mayor (Pankratov reportedly sometimes attended sessions of the Moscow government).35

- Anatoly Kulikov’s removal as head of the MVD in March 1998 was, according to some reports, partly due to his close alliance with Luzhkov. From time to time, the Kremlin has arrested high MVD officials on corruption charges—actions widely seen as warnings to the mayor.

- Law enforcement officials loyal to the Kremlin compile incriminating material on Luzhkov and his wife, according to press reports.

Ensuring public order during a state of emergency is the responsibility of a wide assortment of armed troops—more than 150,000, according to one estimate—stationed in the Moscow area. (Soldiers from these units are also used elsewhere as rapid reaction units—for peacekeeping duty in Kosovo, or, more recently, in the North Caucasus.) The forces are subordinated to various federal agencies:
• To the MVD: the Dzerzhinsky (ODON) Division (10,000 troops); a Special Purpose Police Detachment (OMON), comprising about 2,500 men; and the MVD RUBOP Special Rapid Reaction Detachment (300 men)
• To the Moscow Regional (city and oblast) MVD: a special rapid reaction detachment (300 men); a police brigade (5,000 men); the Sofrino brigade (2,500 troops)
• To the Federal Security Service: the Alfa unit (300 men)
• Subordinated to the Ministry of Defense: the Taman Motor Infantry and Kantemir Tank Divisions (12,000 and 8,000 troops, respectively), based in the Moscow suburbs

Luzhkov began to court these units after the Kremlin raid on Most Bank in December 1994:

• The city began to supplement the salaries of soldiers in the Moscow region, ensuring that they were higher than those of MVD troops in other areas and, in contrast to federal practice, paid them on time.
• Beginning in late 1996, Luzhkov began providing food to the Taman and Kantemir Divisions.
• The city helps to sponsor a wide array of educational and other programs for MVD troops. Under a special program begun in 1998, many Moscow conscripts serving in units near the capital were given a priority right to enroll in higher MVD schools.

Today, many law enforcement bodies probably have stronger loyalties to Luzhkov than to their nominal federal superiors, or their allegiances are unclear. The Kremlin's uncertainty about the troops' loyalty means that it cannot be sure if they would follow a Yeltsin order to patrol the streets of Moscow if the mayor did not approve.

• MVD Moscow region troop commander, General Baskayev, who commands the police and Sofrino brigade, is a political ally of Luzhkov, according to press reports. The commander of the Dzerzhinsky division, General Ovchinnikov, is loyal to Yeltsin.
• The 5,000 troops of the special brigade of the Foreign Intelligence Service (SVR) based in the city's Teply Stan district are more loyal to Luzhkov and former prime minister Primakov (himself a former SVR director) than they are to the federal center, according to the Russian press.
• Luzhkov's influence on the Moscow branch of the FSB may be so great that, in summer 1999, the security service chose to investigate the business activities of Luzhkov's wife, Yelena Baturina, in Ivanovo oblast rather than the capital.

Patrimonialism in One City
Moscow's transformation has less to do with the work of the formal institutions of governance, however, than it does with the patrimonial regime Luzhkov has created. This regime has been a key to Moscow's prosperity and the cause of
much criticism. In patrimonial regimes—Moscow today as well as czarist Russia—the line separating property ownership from political sovereignty often does not exist or is so vague as to be meaningless. Sovereignties over people and property are combined. As a result, in such regimes official authority is conceived of, and exercised as, an extension of the rights of ownership—the mayor and the elites act both as sovereigns of the city and as its proprietors. Patrimonial rule in Moscow has three pillars:

- Extensive participation by the city in commercial activities
- The involvement of Moscow businesses, especially banks, in financing city programs and the commercial use of city funds
- An opaque budget process marked by the extensive use of off-budget funds and high reliance on federal subsidies

Moscow's patrimonial regime is built on cultural continuities with the Russian and Soviet past, and reinforces those trends. Elsewhere in the country governors have tried to build patrimonial systems, often with disastrous results. In Primorsky krai, for example, patrimonial policies by Yevgeny Nazdratenko brought little more than crippling corruption and economic stagnation. Only in Moscow is the patrimonial system stable and prosperous, largely because of the city's privileged position as the national capital, its unique approach to privatization, and substantial foreign investment.

Patrimonial rule in the capital is realized through the so-called Moscow Group, an elite network of politicians, businesses, media holdings, security personnel, and, critics allege, criminal interests. At its core are the mayor's office and central city bureaucracy, the prefects who run the administrative okrugs, and influential businessmen from the banking, trade, construction, and transport sectors. The entire system from top to bottom is answerable to one man: Luzhkov. During the Soviet era, similar networks in cities such as Dnipropetrovsk involved lobbying by the nomenklatura for privileged access to limited resources, goods, and services. Today, the Moscow Group manages a city in which the line between public interest and private profit is blurred, but it has been able—so far—to generate wealth for social welfare and individual gain. By contrast, political participation by Muscovites who do not have connections to the Moscow Group takes place through formal democratic procedure such as voting. Voting preferences on specific issues, however, are often ignored by the city's elite.

With scant legal protection for their property rights—there are no effective mortgages, property registration, title security, foreclosure laws, just compensation guarantees, or affordable insurance—independent, small-scale entrepreneurs find it difficult to survive. Property owners who might otherwise use the equity they have built up to finance education, medical needs, business expansion, or other forms of entrepreneurship are forced to rely on the government for their existence. Although officials insist this approach encourages the formation of small businesses that are the foundation of a stable middle class, in fact, the system raises many barriers to entry into the market for small and medium-sized businesses through the imposition of onerous licenses, taxes, and inspections.
The Luzhkov administration argues that during the city’s transition period Moscow cannot realize its potential as the nation’s administrative, business, financial, and cultural center without the guiding role of the city authorities in entrepreneurship, especially in the disposition of property. Although the system enables the city to deal effectively with many public welfare issues, make money, and crush its political and business enemies, it also creates problems of efficiency and accountability.

Luzhkov’s patrimonial stewardship, however, is likely to be inefficient in the long run. It stifles competition and results in businesses’ being under the control of the mayor’s cronies and organized crime rather than good entrepreneurs. Moreover, patrimonialism inhibits the development of a law-based market that will help consolidate the city’s prosperity.

Moscow is not economically autonomous, nor can its government possibly control all the city’s resources. Thus, there is continuing tension between the government’s patrimonial practices and the need to reassure businessmen who manage to do business largely independent of city hall—especially foreign entrepreneurs—that their investments are secure and legally protected. The need to manage this tension is a central dynamic of the city’s politics and Luzhkov’s job as mayor.

Beginnings
It has often been claimed that the economic origins of the Moscow Group lie in Yeltsin’s 1994 decision to allow the city to follow a privatization policy substantially different from that followed at the federal level. In fact, its origins were earlier, during Gorbachev’s perestroika, when Soviet officials—CPSU nomenklatura, government ministers, and others—began using their access to state and party property to set up the first private, still formally illegal, businesses. When, during the late 1980s, Luzhkov was in charge of developing Moscow’s new network of cooperatives, joint ventures, and other small private businesses, he forged ties with the emerging entrepreneurs around the city, whose profits and resources he later tapped as mayor. Each part of this emerging, entrepreneurial coalition—leaders of the Young Communist League (Komsomol) who had rejected Soviet ideology, ideological “democrats,” and reform bureaucrats, especially from the city’s construction and trade industries—mustered its own set of business structures, which eventually provided leaders and resources for Popov and Luzhkov. At the time of the electoral victory of the Popov/Luzhkov team in 1990, these operators had expanded their economic base to include real estate, housing, business, and gold mining. Some of these commercial ventures remain in business today.

After their election in 1990, a major goal of the new, anti-Soviet officials was acquiring the property held by the Moscow Gorkom (City Party Committee). In the final months of the Soviet Union, the gorkom had been trying to ensure its survival by creating a vast business empire of its own. (For example, on 9 August 1991—only a week before the hard-line coup—CPSU Deputy General Secretary Ivashko signed a top secret resolution transferring buildings belonging to the
Communist Party to a new, limited joint-stock company created by Moscow party boss Yuri Prokofiev.\textsuperscript{45}

After the collapse of the USSR, the city and the new, independent Russian government divided up many Communist Party assets, although with a decided advantage for the federal authorities. The federal government rebuffed Luzhkov’s proposal that party property be put up for sale and the profits divided and that medical facilities be given to the city for social objectives. In March 1992, Yeltsin assigned thirty-three properties to his presidential office (nine of which were within city limits) as well as parts of the Soviet Health Ministry. In October 1993, Yeltsin took over the former Council for Mutual Economic Assistance building next to the Russian White House that Popov had sequestered for the mayoralty in 1991. That facility temporarily housed the State Duma before being returned to the city in April 1994.\textsuperscript{46}

Whatever financial loss the city suffered because of the federal takeovers, however, was more than outweighed by Moscow’s acquiring other state property as well as the massive inflow of foreign investment. Most notably, Luzhkov bitterly opposed the federal government’s voucher privatization program. When in 1992 the Russian government began an ambitious and controversial sell-off of buildings, factories, and mining and oil companies to jump start the free market by putting state-owned assets in private hands, Luzhkov refused to auction off more than 3,000 companies in the city, complaining that Anatoly Chubais, then privatization czar, was giving away state property “like a drunk selling everything in the house.” Instead, Luzhkov demanded from Yeltsin—and after eighteen months received—formal approval to pursue his own form of privatization. The city retained ownership of almost all former Soviet property on its territory—which it then leased at high rates to carefully chosen investors for terms of up to forty-nine years. In this way, the city could micromanage land use as well as manipulate rents and prices, and—together with its taxing power—generate vast sums of money.

By late 1995, money was pouring into Moscow coffers from real estate deals, as well as corporate, personal income, and value-added taxes. Especially lucrative for the city—where many large Russian firms had their headquarters—was a provision in the Russian tax code that required all enterprises to pay taxes in the jurisdiction where their headquarters were located. For example, the firms dominating Russia’s huge energy sector, such as Gazprom and Lukoil, paid taxes (when they paid them at all) in the capital rather than in distant jurisdictions where production and shipment took place. In 1997, Gazprom payments alone provided 15 percent ($1.2 billion) of city revenue.

The City in Business

Today some 2 million Muscovites work either for the city or for businesses owned by the city. The public sector accounted for 43.5 percent of all Moscow employment at the end of 1997, according to the rating agency Fitch IBCA, while an additional 29.5 percent of all workers were employed by companies that are either controlled by the city or make a majority of their sales to the city.\textsuperscript{47}
One form of city entrepreneurship comprises its diverse stockholdings in real estate, business, and oil. Although city-owned firms must compete with their fully private rivals and many are reportedly not profitable, city hall often gives the companies it owns choice locations and other advantages that give them an edge on their rivals.

**Real Estate**

The city of Moscow controls 36 million square meters of commercial real estate—almost half of the office space in the city. It also owns property in other Russian regions and abroad. Despite the 1998 economic collapse, that year the city received $308.6 million in income from real estate deals. The total worth of city-owned property was estimated in 1988 to be about $25 billion. In addition to generating income, the city's real estate holdings have enabled municipal authorities to alleviate pent up demand for housing, especially in Moscow's outlying districts. Since he became mayor, Luzhkov has built 32 million square feet of new apartment space, providing housing for tens of thousands of families that had been on waiting lists for years.

**Business**

Moscow owns stakes in some 540 companies, including controlling interest in 190 firms and majority interest in more than 50 others. City holdings include luxury hotels, office towers, fast food restaurants, grocery stores, food markets, shopping malls, television companies, textbook publishers, travel agencies, milk and cheese producers, and bread factories. Many subunits of the municipal bureaucracy are themselves involved in commercial ventures.

The city's industrial holdings—24 percent of the total portfolio—are central to Luzhkov's industrial strategy. Firms with substantial ownership by the city include the following:

- The carmaker AZLK, maker of the unpopular, unreliable Moskvich, which receives subsidies from the city. Under municipal stewardship the factory has begun producing new models, but sales are dismal and the brand's reputation is poor. In April 1999, the French carmaker Renault began production of Megane cars using space provided by the Moskvich factory. Renault hoped to produce about 2,000 vehicles in 1999.

- The ZIL truck factory, a 59 percent share of which was transferred to Moscow in April 1998 by then acting prime minister Sergey Kiriyenko, probably as an incentive for Luzhkov to support his candidacy in the Duma (Luzhkov had publicly called the firm a "victim" of the federal privatization program). The city later extended a loan of $60 million to support ZIL. Despite the infusion of money, consumers remain uninterested in purchasing the trucks. While all of the approximately 20,000 vehicles ZIL produces are sold each year, the municipal government buys 8 percent, and more than half are sold in Moscow. In June 1999, the city signed a second agreement, also with Renault, under which heavy trucks and engines would eventually be produced by ZIL. Beginning in the year 2000 the trucks are to be assembled in Moscow largely with French parts.
In addition to these holdings, Luzhkov wants the federal government to pay its debt to Moscow by transferring to the city stakes in some leading defense enterprises, including the Sukhoi design firm, the Ilyushin and Antei aviation complexes, and the Defense Systems Financial-Industrial Group. In May 1999, the city signed a cooperation agreement with the state arms exporter Rosvooruzhenie by which the city-controlled Bank of Moscow will arrange pre-export financing for military enterprises.

After unsuccessfully lobbying the federal government for the right to manage the Tyumen and Rosneft oil companies, in January 1997 Luzhkov formed the Central Fuel Company (CFC), with Yuri Shafranik, formerly Russia's fuel and energy minister, in charge. CFC also comprises an oil refinery, oil product storage facilities, and a chain of filling stations. By mid-1999, the Moscow Oil Refinery produced 60–70 percent of the gas used in Moscow, although most was made from crude oil supplied by Lukoil, Tarneft, and other oil traders. In June 1999, the city joined forces with several major oil firms to give it even greater control over the oil supply.51

**Moscow, Inc.: Sistema**

No institution more clearly embodies Luzhkov's blend of politics and business than the city's AFK Sistema conglomerate, the heart of the mayor's authority and the symbol of his vision for Russia.52 Some of Sistema's firms draw loans and business from the city, rather than basing their decisions on market considerations. They thereby enable Luzhkov to generate funds for his pet projects, often free from outside scrutiny. (The Sistema-controlled Moscow Bank for Reconstruction and Development, for example, manages city funds and has channeled hundreds of billions of rubles into city investments.) Other Sistema holdings profit from Luzhkov's decisions. Where many city-owned businesses have stiff competition, despite the advantages they receive from the municipality, Sistema represents crony capitalism at its fullest: many of its subdivisions have been granted near-monopolies and face little competition at all.

It is hard for a Muscovite to avoid Sistema's pervasive influence. Sistema's insurance company Lider insures the Moscow metro. The Sistema-controlled Kedr-M is the largest company authorized to sell gasoline in Moscow. The firm's information companies make the metro's magnetic cards and install computerized information booths around town. Its construction arm is also involved in the city's mortgage program and a city-funded program to renovate large apartment buildings.53

Sistema's origins in import-export trading in scarce commodities by Moscow elites and its continued closeness to the political leadership resemble the far better publicized financial "magnificent seven" oligarchs who cluster around the federal government and who bankrolled Yeltsin's reelection in 1996. Despite its image as the corporate symbol of the "New Moscow," Sistema's large economic, transport, and communication holdings, as well as its status as a virtual state within a state, resemble nothing so much as the semiautonomous Ministry of the Interior of the czarist government a century ago.54
Origins

Sistema's murky beginnings are related to the evolution of the city's Committee on Science and Technology, in the early 1990s an obscure, cash-strapped Moscow department under plastics engineer and Luzhkov family friend Vladimir Yevtushenkov. In 1993, Yevtushenkov created a joint stock company on the basis of the city agency, also called the Moscow Committee on Science and Technology (MKNT), and reportedly transferred the controlling bloc of shares to city hall. According to one report, Yevtushenkov used money earmarked to the Moscow military industrial complex for its conversion. MKNT had as one of its first profitable activities the manufacture of antipollution devices for trucks and buses.

Yevtushenkov created the conglomerate AFK Sistema by uniting MKNT with a group of Moscow firms that had been engaged in retail trade and financial operations and that at the time were yielding extraordinarily high rates of profit. These companies included the tourist firm Intourist, the Almeko plastics factory, the Moscow Bank for Reconstruction and Development (also created by Yevtushenkov), and a little-known firm called Region, run by former Soviet KGB chief Vladimir Kryuchkov and Vladimir Guseinov, former head of the Azerbaijani KGB. Region today provides analytical and security services for Sistema.

In its first few years of existence, Sistema continued its original buy-and-sell operations in oil, computers, office equipment, and sugar. It then began to buy up shares in many Moscow firms that were being privatized by the federal government, especially in industrial sectors such as telecommunications and electronics that foreign investors were shunning. Sistema was also authorized to manage municipal bonds under the cover of financing some of Moscow's military-industrial facilities. The key to Sistema's development, however, was MKNT's 1995 acquisition of a 25 percent stake in the Moscow City Telephone Network (MGTS), which controls 4 million (95 percent) of the city's land-based lines.

After acquisition of the telephone network, Sistema grew rapidly, gradually deemphasizing financial speculation in favor of building up businesses that would help the Moscow economy. Today Sistema is a $2 billion financial-industrial conglomerate with more than 150 companies and 50,000 employees in more than ten Russian regions. Sistema owns shares in several cellular phone companies, including partners Deutsche Telekom and Ericsson. IBM, Samsung, and Flemings Group of Britain are also among its foreign partners. In February 1998, Sistema bought all the shares in MGTS owned by Guta Bank, one of the major MGTS partners, thereby consolidating its presence inside the telephone company. In 1998, Sistema made a profit of $823 million. One Western creditor recently told the Wall Street Journal Europe that Sistema was the only one of his bank's Russian clients that did not default after the August crisis.

In addition to telecommunications, Sistema is involved in financing commercial projects, trading securities from major firms such as Gazprom and United Energy Systems, and tax consulting. It has extensive business interests in construction, retail, microelectronics, oil, travel, and insurance. In addition to Intourist, Sistema has holdings in oil fields in the Komi republic, the high profile Zelenograd Electronics firm, and Detsky Mir toy store.
Board Chairman Yevtushenkov says he receives no government salary, although he admits he spends most of his time on city projects and holds an official position as Luzhkov's economic adviser. Yevtushenkov also sits on a twenty-four-person municipal council that has approved several multimillion dollar loans to Sistema. He denies that he asks for favors from the mayor and says that Luzhkov discovered he was connected with Sistema only in 1997.

Current Sistema president Yevgeny Novitsky joined the conglomerate in 1995. Novitsky reportedly is also chairman of the board of the IVK Company, a computer manufacturer that he helped found in 1990, which some press reports allege has links to organized crime. According to Novitsky, Sistema is 100 percent owned by another firm, Sistema-Invest. That company, in turn, is 40 percent owned by a Luxembourg investment company linked to the investment firm ING Barings. Novitsky, Yevtushenkov, and several others reportedly hold the remainder of the stock. Novitsky denies that the city of Moscow holds shares in the firm.59

**Business in the City**

The direct involvement of Moscow businesses in financing city programs is the second distinctive aspect of Moscow’s politics. Business participation in city affairs provides the authorities with funds that might not be available from conventional revenue sources. For business, cooperation with municipal authorities provides opportunities for profit and special favors, as well as protection (krysha) from competition, criminal elements, and the dangers of operating in an unregulated market without an effective rule of law. In recent years, businesses donated 72 million rubles toward the cost of the Moscow anniversary celebrations, while Stolichny Bank (now SBS- Agro) purchased equipment for the Interior Ministry’s Main Directorate in the Moscow region.60

The most spectacular symbol of the close relationship between business and the city is Luzhkov’s extravagant Cathedral of Christ the Savior, a monument to the victory of Russian forces over Napoleon built on the site of the original cathedral destroyed by Stalin in 1931.61 The current structure was built at a cost of about $500 million, much of it from corporate contributions. Financing of the project was the responsibility of the Public Supervision Council, chaired by Patriarch Aleksii II with the mayor as his deputy. Luzhkov secured many donations by offering favors and commercial privileges to companies as diverse as Rosvooruzhenie—the state arms dealer—the Dutch electronics firm Philips, and McDonald’s. On the day Stolichny bank gave 53 ingots of gold for the cathedral’s cupola, the bank was awarded the right to manage lucrative bank accounts of the Moscow Orthodox Patriarchate. Under a May 1995 presidential decree, which expired in 1997, companies donating money enjoyed tax exemptions. Currently, those donating receive deductions from their city taxes.62

**Commercial Banks**

Banks not only work with the city to finance specific projects. In the absence of a viable treasury system, the city relies on commercial banks to manage its funds
These relationships link the city, Moscow’s financial institutions, and favored firms in a complicated network of interlocking ownership, formal strategic partnerships, and informal business and personal ties. Luzhkov uses his ability to authorize a bank as an important form of patronage.

Three kinds of financial institutions manage the city’s money:

- The Bank of Moscow, in which the city has majority ownership; the city controls several seats on the bank’s board
- Guta Bank, which is owned by the city-controlled Sistema holding company
- Privately owned banks, in which the city has a minority stake or none at all

In common with federal practice, these banks are “authorized” to handle specific city accounts. In past years, they have included Avtobank, Alfa, Aspekt, Vozrozhdenie, Zelak-Bank, Inkombank, Menatep, Most, Mosbiznesbank, Nacionalny Kredit, Oneksimbank, Orbita, Pervy Industrialny Bank, Promradtekhbank, Rossisky Kredit, Stolicny (now SBS-Agro), and Tekhnobank.

In 1994 Most bank, long considered the most influential of the city’s authorized banks, grew prosperous through its custodianship of key accounts. These involved a significant portion of the city’s revenues, including the licensing chamber, the departments of municipal housing, education, architecture, international relations, and special services, and the culture committee. More importantly, Most controlled the lucrative accounts of the city finance department. (The accounts of two branches of the federal Ministry of the Interior, GUBOP and GUVD, were also at that bank.) In exchange for these business advantages, Most founder Vladimir Gusinsky, with extensive ties of his own to the former Soviet nomenklatura, gave vital political and financial support to Luzhkov, especially in city hall’s struggle against federal privatization policy.

After the December 1994 Kremlin-backed raid on Most headquarters, the city created its own bank, the Bank of Moscow, to handle city accounts. Most retained only the smaller accounts of the department of education, the culture committee, and the traffic police and was seriously weakened by the withdrawals.

The Bank of Moscow, meanwhile, quickly developed into one of the dozen largest banks in the country, with assets of more than $1 billion. According to one estimate, the city channels about 80 percent of its budget funds through the institution. Although Luzhkov reportedly does not interfere in daily bank operations, he sets the framework for the bank’s lending policies and insists that it support small and medium-size businesses, provide financial services for city residents, and extend credit to favored organizations. The bank gave $3 million to fund Moscow’s 850th anniversary festival and has supported the reconstruction of the Gostinyi Dvor shopping center and the Luzhniki sports complex. The bank also led the syndicate of six banks providing the loan to ZIL.

**Creative Budgeting**

Moscow’s budget system, unique in the Russian Federation, is the third critical element in Luzhkov’s patrimonial regime. The system is characterized by a high degree of opaqueness and the extensive reliance on off-budget funds.
Opaqueness

On the surface, Moscow, like any city, operates on a budget that is approved by its legislature, the City Duma. When pushed, the Duma will supply a copy of the official budget, but officials are generally reluctant to open the city’s books. Nevertheless, experts estimated that Moscow’s 1998 budget was about $9 billion before the economic collapse. About 90 percent of all revenues in the official budget come from taxes, especially capital gains, income, and value added taxes.66 The city divides expenditures into two portions: 90 percent are core operating expenses—for housing, health care, and education. The remaining 10 percent are for development projects.67

Off-Budget Funds

Federal law requires Moscow, as a unit of the federation, to have its own road fund, pension fund, medical insurance fund, and employment fund. In addition to these mandated accounts, the city has some 150 additional “charity” or off-budget funds, for nominal purposes such as ecology, cultural support, hard currency, and each of the ten administrative okrugs.68 These special funds, according to ratings agency analysts, make the city’s actual budget 30–40 percent larger than the official figure. Defenders of the practice claim that off-budget funds facilitate flexibility in conducting specific operations. However, the city is accountable to no one for their use, and they provide fertile ground for abuse. In 1997, the federal Accounting Chamber found that the off-budget fund for employment had invested eight million rubles as start-up loans for various firms and that almost 190 million rubles had simply vanished. The money was never paid back.69

Some money for the off-budget funds comes from standard revenue streams such as tax collection. Most, however, comes from other sources, including private firms in the form of “contributions” or “fees” paid to the city to keep their businesses open.70 The city deposits the money in those commercial banks with which it has a close relationship. There the money is largely beyond the control of the federal government, the City Duma, and the electorate.

Federal legislation requires that the money in off-budget funds be spent for the purposes to which they are designated. Moscow city fathers, however, do not always observe that requirement. Much of such money goes toward commercial and housing projects or programs that further Luzhkov’s personal economic and political agenda. Whereas in other cities massive construction projects—such as the shopping development at Manezh Square and the Olympic Village—would be financed through a city bond issue, in Moscow financing often comes from behind-the-scenes contributions by city firms, or little-publicized funds at Luzhkov’s disposal. Much of the city’s assistance to other regions, for example, comes from off-budget funds.

Illegality as an Instrument of Governance

The development of Moscow’s patrimonial system has been accompanied by frequent allegations of official wrongdoing. Luzhkov has repeatedly denied those charges, and few cases against specific individuals have ever been proved.
Indeed, from the point of view of the mayor and its other proponents, Moscow’s regime is a regime in its own right, not a distortion of something else. Conflicts between sovereignty and property rights usually do not arise because they are one and the same.71

From the point of view of countries where there is a clearer real distinction between political sovereignty and property rights, however, criminality is not a threat to the system Luzhkov has built in his city, but is an integral part of it:

- Arbitrariness characterizes virtually every aspect of public administration. Municipal authorities violate international, federal, and sometimes even their own laws and regulations, when it suits them.

- Corruption is widespread.

- Organized crime groups act as “normal” interest groups that city hall must take into account when formulating and implementing policy.

- The lawless criminal climate in Moscow makes it difficult for businesses to prosper without being kept safe by some kind of organized force that provides protection—the so-called krysha (roof). This protection may come from law enforcement agencies or private guard services, as well as from organized crime.72

**Fundamental Arbitrariness**

City hall routinely shows little concern for due process in dealing with its citizens. In regimes governed by the rule of law, due process requires that government actions affecting individual personal and property rights follow fair procedures. Such procedures usually give citizens potentially affected by state action adequate notice and an opportunity to be heard with respect to government action that could affect them. If the government plans to take private property, for example, due process requires a hearing to help determine the balance between public and private values and that the government provide adequate compensation. In Moscow, by contrast, due process considerations play only a minor role in regulating official action. Investors must comply with arbitrary administrative procedures that do not exist in federal law and that are often enforced not to ensure fairness or advance a public interest, but to further the agenda of the city elite. A businessman must prove that the company in which he wants to invest has been audited, that the potential market it wants to tap has been officially estimated, and that the company complies with an ecological survey conducted by experts chosen by the city. The city decides to whom loans may be granted and allows into the capital only those businesses that it approves.73 Businesses that do not accept the rules laid down by the city or refuse to contribute to Luzhkov’s favorite projects are not allowed to make a profit. For example, in 1997 the city threatened Western firms with a fiscal audit unless they agreed to take part in Moscow’s rejuvenation.74

With the stroke of a pen Luzhkov can dispose of valuable property and transfer ownership without judicial process. By decree Luzhkov has unilaterally increased the Moscow government’s stake in some enterprises, sometimes without compensating foreign investors. Under one resolution, additional common
shares were issued to the city government, and nonvoting preferred shares already held by Moscow authorities were converted into common stock. In a 1994 dispute between the Moscow Circus and a U.S. firm that managed its concessions, Luzhkov stepped in and unilaterally decided that the terms of the joint venture agreement were too favorable to the U.S. side. He gave the Russian partner full control over the entire enterprise. The decree contradicted federal legislation on several counts, including Russia’s antimonopoly law, which prohibited government interference in the activities of commercial enterprises.75

**Widespread Corruption**

According to a March 1999 poll, about 28 percent of Muscovites said they had experienced official corruption in the city; 64 percent said they had faced it while dealing with law enforcement agencies; and 34 percent encountered it while dealing with higher municipal authorities.71 The average Muscovite must pay to secure a meeting with city officials, acquire a license, or register a car. City bureaucrats use their control over licenses and privileges to earn large amounts of money for themselves by lobbying for commercial firms or criminal organizations, or simply diverting money intended for city coffers into their own pockets. When in 1997 Luzhkov decided to clean up the notoriously filthy and dangerous entryways to city buildings, for example, he ordered that intercoms be installed on every building in Moscow and gave neighborhood officials the job of carrying out the decree. While officials went through the motions of inviting all intercom providers to bid in open tenders, in many neighborhoods the bidding was rigged and contracts went to companies with connections to city officials.77

There are two types of bribery, each with direct antecedents in Russian political culture:

- Income derived at the expense of the government—known in czarist times as sinful income (greshnye dokhody)—such as embezzlement of government funds or deliberate falsification of data.
- Income obtained at society’s cost—traditionally called innocent income (bezgreshnye dokhody)—including profits from extortion, money received by a judge to settle a trial in favor of one person rather than another, and tips taken to expedite a citizen’s business with the government.78

There is no established evidence that Luzhkov or any top member of city government is personally engaged in corrupt practices. The mayor has been quick to sue anyone who accused him of corruption and has invariably won. (In August 1999, for example, Luzhkov asked a city prosecutor to file charges against would-be mayoral candidate Mikhail Dvornikov, who accused Luzhkov of illegally privatizing more than 2,000 large Moscow businesses.)79 The closest the mayor has come to being implicated was in 1991, when, as vice mayor, he signed a decree transferring the title to some of the most valuable real estate in the capital to Orgkomitet, a private-joint stock company. According to the company’s registration documents, Luzhkov was president of Orgkomitet at the time. Luzhkov publicly denied he was ever actually involved in the firm.
Although the mayor has never been personally implicated, there is abundant circumstantial evidence that his family and friends have made large amounts of money through their ties with city authorities. Western construction companies, for example, complain about legislation that forbids moving large shipping containers into the city center during working hours. Only one enterprise is authorized to unpack large loads into acceptable smaller ones.80

The best known example of such alleged cronyism is the case of Inteko, the profitable plastics manufacturing firm owned by Luzhkov’s wife Yelena Baturina. Inteko owns and operates five factories, employs almost 2,000 people, and reportedly had a net worth in January 1998 of about $1 million. In a rare recent public interview, Baturina claimed that Inteko does not accept contracts financed by the city government and denied that her firm has profited from Luzhkov’s influence. However, the company’s headquarters are located in a prestigious downtown building on a floor belonging to the city’s building and construction department, which reportedly also charges discount rents to favored tenants. Inteko manufactures disposable plastic cups and dishes for, among other customers, one of Luzhkov’s pet enterprises, Russkoye Bistro—a Russian fast-food chain he founded in 1995 to compete with McDonald’s (in which the city also has a financial interest). Inteko also submitted the winning bid for the installation of heating systems in the AZLK motor vehicle plant and made $100,000 on the plastic plates and glasses it sold the city for Moscow’s 850th anniversary in 1997, according to one critical newspaper.81 That year Inteko also won a million-dollar contract to manufacture seats for the 82,000-seat Luzhniki stadium, another one of the mayor’s favorite causes and one of Moscow’s largest construction projects in the last twenty years. Baturina has publicly denied that her husband was responsible for her firm winning the contract.82 Whatever, the reason, Luzhkov probably does not need to order his subordinates directly for them to give business to Inteko. “Everyone is smart enough,” one observer who saw nothing wrong with the practice recently told the Moscow Times.83

The Politics of Organized Crime
Luzhkov’s patrimonial system—especially the symbiosis between the Moscow government and city’s commercial interests and the opaqueness of city hall’s budget practices—is fertile ground for the activities of organized crime groups. Such activity is facilitated by an alliance of gangsters, corrupt bureaucrats, and crooked businessmen that ensures that illicit activities do not operate on the margin of official politics and business. They are the center of it. In addition, some official law enforcement agencies also exhibit behavior that strongly resembles that of organized crime.

There is no evidence that Luzhkov is a member of any criminal organization. However, from the point of view of the city’s governance, the capital’s crime groups are so integral to how Moscow is governed that they function much as other, “normal,” lobbying groups—teachers, sanitationmen, and banking oligarchs—which the mayor must take into account when formulating and implementing policy. Because most other interest groups are not as well organized and
financed and often lack access to the Moscow elite, the influence of crime groups on the policymaking process is disproportionately large.

History

Until the beginning of the twentieth century, organized crime in Moscow was confined primarily to what is called "traditional criminality," such as armed robbery and prostitution. Gangs led by a criminal elite—the so-called thieves-in-law (vory v zakone)—developed a strict code of conduct and a well-organized structure in which members were strictly forbidden to have contact with the state.

During the Soviet era, organized crime was from the outset inextricably enmeshed in the system of power. The Communist Party under Lenin and Stalin enlisted organized crime groups to raise money, impose party authority through scare tactics, and help destabilize Western economies through the printing of massive quantities of counterfeit money. Under Stalin, mobsters were termed officially "close" to the regime (in contrast with political prisoners, who were considered dangerous to the state). Another center of organized crime consisted of corrupt party and state officials who profited through bribes and payoffs from an underground economy. By the 1960s, some thieves-in-law had become crucial players in the black market economy, often striking up informal partnerships with local government officials and security organs.

Organized crime groups took advantage of the chaos caused by the breakdown of the USSR to extend their influence in Moscow. Criminal groups profited from running their own small businesses, which often helped supply Muscovites with scarce consumer goods. As the cooperative movement, the first effect of Gorbachev's economic liberalization, gained momentum in the late 1980s, entrepreneurs and petty traders became victims of extortionists who were formerly engaged in debt 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 businessmen and traders at city markets. Official statistics registered a 30 percent increase in racketeering from 1987 to 1988.

After the end of the Soviet Union in 1991, organized crime expanded even further, taking part in the scramble for former Soviet assets also coveted by the city of Moscow and the Russian Federation government. Crime groups reportedly invested heavily in real estate, import-export firms, banking, the fuel and energy sector, and automobile production. Some of these deals required, at a minimum, acquiescence from the Moscow authorities, because they provided the city with the resources it needed for urban renewal. By this time, crime groups controlled entire Moscow neighborhoods and the dividing of spoils sometimes brought armed conflict with the police or other groups.

Today

Although U.S. and Russian law enforcement authorities define organized crime differently, both the U.S. Federal Bureau of Investigation and the Russian MVD agree that organized crime groups play a major role in Moscow's commercial and political life. According to the MVD, in 1994—the last year for which full data
are available—there were 189 active criminal organizations in Moscow, many of which had ties to other regions or overseas. By most accounts the number today is up to 1,500. By 1993, more than 80 percent of Moscow businesses were paying protection money or forced to admit "silent partners."  

In 1993, government authorities acknowledged that organized crime accounted for 30 to 40 percent of the country’s annual turnover in goods and services. In 1994, the MVD estimated that in Russia as a whole, 40 percent of private businesses, 50 percent of banks, and 60 percent of state-owned companies were controlled by organized crime. The percentages were probably at least that large in Moscow. In 1996, according to the MVD, organized crime groups controlled 860 firms and 40 joint ventures in the city. The federal tax police estimated in 1999 that more than one-third of Moscow banks were under the direct or indirect influence of organized crime.

Activity

Moscow’s organized crime groups profit from rent seeking, exploiting the fact that there is a demand for goods and services whose availability is strictly regulated or prohibited by law. For this activity to flourish, Moscow’s criminal organizations need to establish stable structures, such as a territory or organization, in which they can set their own rules. Alternatively, they need the cooperation of city officials. These strategies substitute for public values such as the rule of law, protection of property rights, rules of competition, and nondiscriminatory regulation, which elsewhere are advanced through general taxation but are weak in Moscow’s patrimonial system. Organized crime in Moscow is generally active in areas that yield particularly large profit margins:

- Trade in goods and services, especially illicit ones such as narcotics, weapons, and cultural treasures
- Trade in goods and services that are not outlawed but are either protected by private property rights, subject to indirect taxation, or highly regulated for political or social reasons, such as product counterfeiting, illegal copying of software and audiovisual products, smuggling, illicit gambling, prostitution, and illicit trade in hazardous waste
- Subsidies and credit fraud that involve exploitation of the illegal rent-seeking potential offered by the easy availability of public funds

Major Groups

Many of Moscow’s organized crime groups have their origins in ethnic or national groups (such as Armenian, Azerbajani, Dagestani, Georgian, and Ingush) or in the neighborhood where they were formed (Lyubertsy, Orekhovo-Borisovo, Dolgoprudny, Nagatino, Podolsk, Balashikha, Izymylovto-Golyanovo, Ivanteevka, Tushino, Taganka, and Krylatskoe). However, many groups have expanded their membership beyond their ethnic group or neighborhood and are active throughout the city, in other Russian regions, and abroad. Thus, a group name is now usually a method of identification, rather than a mark of ethnicity or locale.
It is also a practical trademark that guarantees the “quality” of protection and enforcement services.92

Chechen groups are among the most powerful because of their extensive business activities in the city, alleged ties to city hall, and financial support for fighters in the North Caucasus. A central gang led by a single, charismatic leader often dominates them. In addition to casinos and hotels, these groups are allegedly active in financial crimes, car theft, drugs, and prostitution. Chechen groups also allegedly control auto sales, nightclubs, warehouses, and construction firms. They are especially strong in the city’s Central, Eastern, and Western Administrative Okrugs.93

The largest and most powerful criminal association originally based in a city neighborhood is the Solntsevo gang, founded about 1988. Russian organized crime experts believe the group bribed local police and ran racketeering operations before branching out into drug trafficking, money laundering, and prostitution in Europe, the United States, and Israel. The group is believed to control an extensive array of legal business companies, including Maxim, Arbat International, the Magnex company in Hungary, and Empire Bond in Israel, through which it allegedly launders money.94 The Solntsevo group has about 1,7000 members, and some group members, according to the FBI and other law enforcement authorities, specialize in assassination. A Russian crime expert has claimed that Solntsevo today unites more than 300 crime groups and is active in the Russian regions, Europe, and North America.95 There is reportedly no formal hierarchy within Solntsevo, although key figures are personally powerful and have roles as mediators, arbitrators, and ambassadors.96

Despite the organizational fluidity, many law enforcement officials believe that Moscow businessmen Sergey Mikhailov (Mikhas) and Viktor Averin are the overall Solntsevo bosses. Mikhailov is suspected of links to the Russian mobster Vyacheslav Ivankov, nicknamed Yaponchik, who in 1997 was sentenced by a New York court to sixty years in jail for extortion.97 Mikhailov has denied he has anything to do with the Solntsevo gang. He has been convicted of violating the law only once, in December 1994, on a relatively minor charge, although in 1989 he spent eighteen months in a Moscow detention center charged with racketeering. On the eve of that trial, however, key witnesses changed their testimony and Mikhail was released. Despite Interpol and FBI support for Swiss law enforcement authorities, in December 1998 Mikhas was acquitted of charges that he belonged to a criminal organization.

Getting Their Way

Moscow officials need resources that organized crime can provide: money, political support, and protection from “trouble.” Organized crime groups therefore have several strategies available to induce city officials to do what they want:

- Bribery. Crime groups routinely pay bribes directly to officials to conduct their business. Groups want customs officials to turn a blind eye toward their activities or protect shipments of contraband; they want the police to give them
advance warning of raids or to act against rivals; they want judges to dismiss
cases, hand out light sentences, or overturn guilty verdicts.

• Contributing to Off-Budget Funds. Moscow’s organized crime groups are
widely believed to contribute to the city’s off-budget accounts. According to press
reports, crime groups have invested heavily in Moscow’s real estate boom, espe-
cially in the reconstruction of the city’s glittering downtown.

• Legal Partnerships. Crime groups reportedly have a variety of legal part-
nerships with the city, especially via AFK Sistema, although Luzhkov has
denied the allegations. In a November 1998 interview in the newspaper Le
Monde, Sistema CEO Novitsky said that the arrest of Michas halted a $350 mil-
lion contract that Sistema was preparing to sign for the repair of Moscow’s
underground sewage and communications systems. According to the paper,
Michas’s arrest also delayed implementation of a memorandum of agreement
with Société Generale and SCFI Holding, a Swiss company reportedly con-
trolled by Michas, which provided for the creation of mutual investment funds
designed to attract capital for Sistema projects. Michas is also the owner of
the Angstrem firm, according to Obshchaya Gazeta, which in turn is, with Sis-
tema, co-owner of an electronics firm the Moscow suburb Zelenograd. Sistema
leaders Novitsky and Yevtushenkov have denied press allegations that the
firm SV Holding, controlled by Mikhailov and Averin and partly owned by IVK
International (another company reportedly founded by the two alleged Solnt-
sevo leaders), holds stock in Sistema.

More significantly, organized crime groups may rely on alleged advocates with-
in the Luzhkov entourage to attain their objectives.

• Moscow businessman Umar Dzhabrailov, a Luzhkov confidant who often
accompanies the mayor on trips abroad, has been suspected by the FBI, Interpol,
and other law enforcement agencies of involvement in organized crime. (An
MVD report published in the Russian press referred to Dzhabrailov as a “known
contract killer and one of a handful of Chechen mafia bosses operating in
Moscow.”) Dzhabrailov has never been convicted of a crime, however, and
claims his ties to organized crime figures are only social. He is general director
of the Radisson Slavyanskaya and Plaza hotels, and has an interest in the Dana-
to boutique in the hotel, the Tikhaya Gavan advertising agency, the Smolensky
Passazh and Manezh shopping centers, and the Danako Oil company, which con-
trols numerous gas stations around the city.

• Yosef Kobzon, Luzhkov’s close friend and cultural affairs adviser (as well as
a member of the State Duma) reportedly has extensive business interests in oil,
sugar, and the metals trade. Law enforcement authorities have long considered him
active in organized crime, although he has never been convicted and denies the alle-
gations. According to a 1995 FBI report cited in the Russian press, Kobzon and his
partner Anzor Kikalashvili allegedly run a criminal organization whose activities
include extortion, international arms trading, drug trafficking, and counterfeit wine
production. The organization is reportedly active in Moscow, New York, Germany,
and Florida. The U.S. and Israeli governments have denied him entry visas.
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• When he served as chairman of the Russia state sports committee, Shamil Tarpishchev, now Luzhkov’s sports adviser, reportedly was involved in building up the National Sports Fund (NSF) through the importation of vodka and cigarettes, allegedly through murdered mafia boss Otar Kvantrishvili. The vodka reportedly came from the Antwerp firm of mobster Riccardo Fanchini—now imprisoned in Belgium on bankruptcy fraud and suspected by the U.S. Drug Enforcement Agency of drug trafficking. (Fanchini is also alleged to have ties to Dzhabrailov.) Tarpishchev has not been convicted of criminal activity and denies any wrongdoing.

Ties between the Solntsevo gang and the mayor’s office apparently are extensive:

• Sistema CEO Yevgeny Novitsky is a “treasurer” of the Solntsevo crime group, according to an FBI agent who testified in the trial of Sergey Michailov in 1998. According to a report compiled by the Russian Interior Ministry and FSB and published in Le Monde, Novitsky allegedly makes no major decisions without the approval of Solntsevo. Novitsky is, with Luzhkov’s wife, Yelena Baturina, co-owner of the Almeko Company, which produces plastic goods. Novitsky has denied he has ties to Solntsevo. Le Monde also reports that Luzhkov has several times tried to suppress reports from Russian intelligence agencies alleging that Novitsky has links to organized crime.

• Sistema founder Vladimir Yevtushenkov is a friend of Mikhas, according to Le Monde. The two met several times for business reasons during the latter’s incarceration in Switzerland in 1998. According to the newspaper Russky Telegraf, a firm owned by Mikhas was a founding shareholder of Sistema.

• Controversial media magnate Sergey Lisovsky, now helping Luzhkov with his possible presidential bid, reportedly used his SV Premier advertising agency to help Michas and Averin create SV Holding. Lisovsky has long maintained that he is a legitimate businessman, and has never been convicted of wrongdoing, despite several brushes with the law.

Effects

Organized crime in Moscow imposes many costs on the city in terms of public security and health, environmental damage, and lost revenues. It has an adverse effect on the legitimate economy, especially on fair competition, and can foster other criminal activity. Laundered money from criminal activities is invested in various legal businesses, such as tourism, waste recycling and disposal, construction, banking, and real estate, and supports organized crime’s illicit activities. Firms based on organized crime money compete on unfair terms with legal firms, sometimes driving them out of a market. By means of bribery and blackmail of government officials and politicians, organized crime distorts competition in favor of its “legal” businesses and eventually tries to create a favorable legal and regulatory environment for its illicit activities.

Organized crime control of banks and other financial intermediaries not only facilitates money laundering, but also is a potent vehicle for a host of primary organized crime activities such as financial fraud.
Protection Politics

The integration of Moscow's criminal groups with its political structures is perhaps best exemplified by the umbrella of protection—or krysha (roof)—many businesses need in order to survive. A krysha may come from law enforcement agencies or private security services, as well as from organized crime groups. Its hallmark is that there is no contract binding the parties, and payments are made illegally. In return for a large share of its profits, a firm can receive everything from office renovation to the killing of a business rival. This can include ensured personal security, defense from attack or shakedown by another krysha or by corrupt law enforcement authorities, handling of payoffs and deals, and intimidation of real or potential enemies and competitors. A krysha can also provide legal and business advice from its "legal staff," privileges at criminal-controlled banks, assistance with debt collection, and customs clearances. It is unclear how many businesses have a criminal krysha, rather than legitimate corporate security, but MVD sources claim that up to 80 percent of Russian businesses pay for some form of protection from all sources. In addition, 30 percent of police officers reportedly maintain kryshas for commercial structures. An MVD specialist in organized crime estimated that in 1998, 30 percent of the city's commercial structures paid for protection from the Solntsevo crime group.112

The Interior Ministry's Moscow Regional Administration for Organized Crime (RUBOP), lobbied for by current MVD chief Vladimir Rushailo in the early 1990s and at that time backed by Mayor Luzhkov, emerged in 1993 with a reputation as a strong enemy of organized crime in the city. At the same time, in its diverse business interests and effectiveness in providing a krysha for some of the city's major businesses, as well as its ties to federal and city authorities, RUBOP itself resembled an organized crime group. Although little is known about the full range of its funding sources, details that have surfaced cast doubt on the organization's impartiality. RUBOP's operations exemplify the way in which many nominally law-based institutions straddle the murky world of business, politics, and criminality.113

Almost from the start, RUBOP was not a fully budget-funded organization. Rather, it received funds from interested private firms and individuals, as well as public money. One source of funds stemmed from Rushailo's relationship with Alexander Kachur, who had come up through the MVD ranks with Rushailo. In 1992, Kachur established at least three commercial firms. The next year, because of the conflict between his professional and business activities, Kachur ostensively left the MVD.114

Kachur then set up the Fund for the Social Defense of High Risk Occupations. Despite the fund's name, the true beneficiary of Kachur's activities was Rushailo's RUBOP. Luzhkov reportedly contributed $500,000 to the fund's creation. The fund also "passed the hat" among Moscow's business and political elite. Several prominent financial figures were among the major contributors, and the fund reportedly kept its accounts in oligarch Alexander Smolensky's Stolichny Bank, one of the city's authorized banks. Kachur acted as a liaison between RUBOP and businessmen who were running into problems collecting
debts and enforcing contracts. In exchange for contributions to the fund, Kachur arranged to have such issues settled by RUBOP in favor of the contributor. Thus, for its contributors RUBOP acted not as an impartial law enforcement organization, but as a krysha.115

In fact, RUBOP’s relationship with the Solntsovo crime group does not appear to be above board. An MVD official who cooperated with the Swiss investigation in the Mikhas trial claimed that RUBOP actively pressured him to be uncooperative. First, the officer said, a RUBOP leader offered to pay him not to help the investigation. Failing this, RUBOP officials pressured the officer to testify that the Solntsevo gang was not much more than the figment of journalists’ imaginations.116

By the time of the trial, however, Rushailo was no longer head of RUBOP. Although Rushailo was largely untouchable throughout RUBOP’s early years—apparently because of Luzhkov’s protection and his own adept use of kompromat (compromising material collected to discredit a political or business rival)—Rushailo’s financial independence earned him powerful official enemies. He compounded this by engaging in a number of intrigues within the MVD that further roused hostility against him. After an apparent falling out with Luzhkov and MVD chief Anatoly Kulikov—Rushailo’s ties to political rivals Alexander Lebed, Alexander Korzhakov, and oligarch Boris Berezovsky probably angered Luzhkov—Rushailo was transferred to another position within the ministry in late 1996. (Kulikov, probably upset by Rushailo’s independence, reportedly ordered thirty-eight separate investigations of RUBOP activities.)117

Moskovsky Komsomolets reported on 30 March 1998, seven days after Kulikov’s departure, that the MVD’s auditing commission—directly subordinated to the minister of internal affairs—had discovered serious violations of the law in RUBOP’s activities. The commission’s report allegedly called into question RUBOP’s relationship with Stolichny Bank and asked that those involved be punished. However, the article noted, it would be difficult to do so because Rushailo had long since left the MVD. Rushailo returned to the MVD two months later, in May 1998, and nothing further was heard of the report. After he joined the government of Sergey Stepashin as interior minister in spring 1999, Rushailo removed from the MVD investigative committee those individuals who had conducted the case against Smolensky.

Managing Crime

Luzhkov has repeatedly denied that he or his friends are involved in organized crime activities. If some of his friends or professional associates have criminal ties, the mayor has stated, that is their private concern, not that of the city administration. We can understand the importance of such links in Moscow politics only by examining crime groups and city officials in action and evaluating the results. Although much evidence is unavailable, that which is public shows that alleged organized crime groups often—but not always—get what they want from city officials. Luzhkov apparently acts as an arbiter among those groups and other organized interests. As a result, it is often difficult for the mayor to act solely in the wider public interest.
Sometimes Luzhkov makes decisions that appear to help alleged organized crime interests:

- According to *Time* magazine, Luzhkov assisted a friend from his days running the city’s fruit and vegetable cooperatives, Grigory Luchansky, with Columbus, a Russian company that was given permission to ship a huge volume of copper from Russia without paying export taxes. The metal was to go toward a project to donate colossal statues of the explorer, each one larger than the Statue of Liberty, to the United States and Spain. They reportedly were to be created by the well-known sculptor Zurab Tsereteli, another Luzhkov friend. The Vienna-based firm Nordex owned stock in Columbus, and Luzhkov, *Time* reported, wrote President Yeltsin requesting the tax waiver. (According to U.S. and German officials quoted by *Time,* Nordex, set up by Luchansky in 1989 and possibly intended to earn money for the KGB, was involved in money laundering and the smuggling of narcotics and nuclear material across the Baltic.) In any event, no statues were ever built, although about 30,000 tons of the metal was exported. Luchansky has been linked in press reports to allegations of money laundering through the Bank of New York. Israel, Canada, Great Britain, and the United States have denied Luchansky a visa.119

- Moscow city agency Glavsnab was allegedly involved with Nordex in a project to build a huge brewery. As part of that deal, according to *Time,* Glavsnab transferred $10 million to Nordex through Elnor, a company in Liechtenstein. Nordex also received a $13 million interest-free loan from Glavsnab. The mayor’s office refused to comment on either the Columbus project or Glavsnab’s relationship with Nordex.119

- In a much publicized dispute over the ownership of the Radisson Slavyanskaya Hotel, the mayor’s office, using its own decrees as justification, authorized the Moscow Property Committee to appoint its own officials to the hotel’s board of directors in direct violation of Russian law that prohibits government officials from serving in commercial enterprises. The city then blocked the re-registration of the joint venture, as called for by Russian law, to extract better terms for itself. Although the hotel’s American managing director, Paul Tatum, lived in Russia, the city refused to reissue him a work visa, as was called for in the joint venture documents. After Tatum was killed outside the hotel in 1996, the city appointed Umar Dzhabrailov as managing partner to represent its interests. Dzhabrailov was an early suspect in the case, but charges against him were never filed and the murderer has never been found.120 Three weeks after the killing, the U.S. government revoked the visa it had issued to Dzhabrailov, saying it was concerned he would enter the country to “engage in unlawful activity.”

Sometimes the mayor acts contrary to apparent organized crime interests. In October 1996 he ordered twenty-eight casinos closed down with no explanation. The thirty remaining gambling houses were ordered to diversify their activities and to open entertainment rooms, bars, and restaurants. The move was made at a time when Moscow officials were trying to raise funds to organize the celebration of the city’s 850th anniversary. Whether they liked it or not, the capital’s casi-
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Nos—widely believed to be connected with organized crime and money laundering—thus became unofficial sponsors of those festivities. Moreover, the closure would allow Luzhkov to claim he had combatted organized crime in the city. According to press reports, casino directors were regularly asked by the city to contribute $20,000 each month toward the reconstruction of the Cathedral of Christ the Savior. The city reportedly collected up to $1 million per month. Luzhkov later changed his mind and restored the licenses of ten casinos.121

Most frequently, however, the mayor appears to leave organized crime groups alone. It is noteworthy that despite Luzhkov’s reputation as a hands-on manager wary of any challenge to his authority, crackdowns on organized crime in the city have been rare. Since Chechen gangs reportedly control much of the city’s car and gasoline sales and dominate the casino and hotel industries, law enforcement authorities have speculated that the political will to fight these gangs (as opposed to the mass deportation of ordinary residents of Chechen heritage) may not exist, although they are allegedly financing rebellion in the Caucasus. In another example of city hall’s neglect, former prime minister Sergei Kiriyenko, a possible challenger to Luzhkov in the December 1999 mayoral elections, recently alleged that despite Luzhkov’s promise to raise money from a new levy on casinos to provide for revenue sharing to the regions, the mayor last year allowed city casinos to pay only one-tenth of the taxes they owed. As of this writing, no casinos have been charged with tax evasion.122

The Lessons of the Collapse

The financial aftershocks of Russia’s economic collapse in August 1998 shook not only the capital’s economy, but also Luzhkov’s claims that he could repeat Moscow’s success elsewhere in the country. For the first time in years, the city was forced to choose among financing social spending, honoring its substantial foreign debt, and supporting its commercial projects—the massive Manezh underground shopping complex, for example, was believed to be running up huge losses. The crisis inflicted heavy damage on virtually every aspect of life in Moscow.

After the federal government’s default in August, Moscow’s tax revenues dropped about 50 percent, according to one city official, and some budget funds were frozen in illiquid banks. Retail sales, profits of commercial enterprises, and real estate prices dropped significantly. Foreign investment in 1998 was $7.2 billion, $1.5 billion less than the previous year.

In September 1999, the city disclosed that real salaries for the first seven months of 1999 were only 62 percent of pre-crisis levels. Extra payments to pensioners and the 50 percent indexing of employees’ salaries in state-run enterprises were practically devoured by inflation. Especially hard hit were jobs in small businesses, trade, and banking. Unemployment was up 51 percent on a yearly basis.

To make matters worse, beginning 1 January 1999, a change in the federal tax code provided that huge companies such as Gazprom, Lukoil, Transneft, and Rostelevision no longer pay most of their taxes in Moscow, where their headquarters are, but in the regions where their assets are located. In addition, a change in a
revenue sharing formula threatened the loss of a federal subsidy equal to about 2 percent of city revenues. In spring 1999, a leading credit agency, citing a "significant deterioration" in Moscow's financial condition, dropped Moscow's credit rating. It is now roughly equivalent to that of the federal government.

Response

Luzhkov boasted after the collapse that Moscow could honor its foreign debt obligations. It did so, but with some difficulty, and in dealing with the crisis in general the mayor displayed his managerial skills. In November 1998, the city called on investors to voluntarily swap their ruble-denominated municipal paper for two-year hard-currency securities with a yield of 14.5 percent per year. Also that month, Luzhkov imposed limits on all core operating expenses for the fourth quarter. Under this emergency budget, the city's spending was reduced 10 percent, while the proportion of net debt expenditures rose to about 20 percent of all spending. The mayor also announced raises in payments for communal services, water, rent, and electricity. In a rare display of independence, the City Duma overruled the mayor and introduced, beginning 1 July 1999, a 2 percent sales tax that would double to 4 percent in the year 2000 (Luzhkov had long resisted a sales tax, but then reversed course and had supported a 5 percent tax from 1 July). In February 1999, Luzhkov successfully fought off attempts by the City Duma to increase social spending at the expense of the city investment fund. Four months later, the city managed to escape default by restructuring the remaining $102 million of a $200 million syndicated loan arranged by Deutsche Bank, West LB, and Société Generale in 1997.

Moscow's media empire was also hard hit by the August 1998 economic crisis, which forced the city to downsize and reorganize its holdings. Luzhkov's continued financial support—also diminished because of the crisis—was the key to continued viability.

The crisis also forced changes in the patrimonial system by which Luzhkov had long governed Moscow. For the first time, Luzhkov indicated he was ready to sell prime plots of land, long owned by the city, to raise money. Faced with a drastic reduction of direct and indirect financial support form the city, AFK Sistema reportedly began using its substantial reserves to bail out its subsidiaries, which were having difficulties competing in the marketplace.

After the August 1998 economic collapse, Luzhkov also reportedly tried to shore up favored authorized banks. The Central Bank (now headed by Luzhkov ally Viktor Gerashchenko) extended to Most, whose relations with the city had begun to improve, a loan of 900 million rubles, according to press reports. Luzhkov also secured stabilization credits from the Central Bank, secured by the city budget, for Vozrozhdenie and Mosstroyekonombank. However, the collapse led the city to examine more carefully its relationships with several authorized banks. The city removed troubled Oneksimbank, Menatep, SBS-Agro, Tekhnobank, and Mosbiznesbank, among others, from its list of authorized banks.

Nonetheless, in some respects the impact of the collapse was less than originally feared. Although many city projects were postponed or canceled after the
collapse, work continued on several—most notably, Luzhkov's grandiose City Project, designed to be Moscow's financial district along the lines of London's Canary Wharf. In response to the crisis, however, city hall admitted that the project would take longer than expected. Officials also indicated that they might seek private investors or sell city land to raise money.128

Confronted with possibly permanent damage to his own and Moscow's reputation, Luzhkov reached quickly for the national spotlight while trying to strengthen his political base. In late 1998, he created the Fatherland (Otechestvo) movement as a launching pad for a presidential campaign. The following summer he convinced popular former prime minister Yevgeniy Primakov and his All Russia bloc (Vsy Rossiiya) to join forces for the December 1999 Duma elections. At the same time, Luzhkov stated that he would defer to Primakov if the latter chose to run for the presidency, and he moved the next mayoral election from the summer of 2000 to coincide with the parliamentary contests—an election he was certain to win. If these moves indicate doubts in his own mind about the viability of his candidacy and his methods on the Russian national level, they show that Luzhkov has no intention of loosening his hold on his beloved city. They postpone answers to questions about the future of a system that is so much the product of a unique set of circumstances and the leadership of one man.

NOTES
12. Ibid.
13. Ibid.
17. Ibid., 671–78.
19. The Luzhkov circle includes: family members and personal friends; long-time associates who rose to power with Luzhkov; former federal officials; policy experts; and those who are preparing the way for Luzhkov's bid for national office.
Family members and personal friends: Luzhkov's wife, Yelena Baturina; Yevgeny Yevtushenkov (head of the Sistema holding company); cultural affairs adviser Yosef Kobzon.
Long-time associates who help Luzhkov’s run Moscow: Vice Mayor Valery Shantsev (a high-ranking Communist until 1991, now responsible for social programs and Luzhkov’s likely successor); Deputy Mayor Boris Nikolsky (who supervises municipal services); First Deputy Premier Vladimir Resin (in charge of construction and real estate, and reportedly has cordial relations with Yeltsin); Vice Premier Yosef Orzhonikidze (former first secretary of the Georgia Komsomol and now in charge of external relations); Prefect of the Central Administrative Okrug Aleksandr Muzykantsky (an activist in the democratic movement during the Popov era); Press Secretary Sergey Tsyo (public relations).

Former federal officials: Yeltsin’s former press secretary Sergey Yastrzhembsky; Geor-gy Boos; ex-federal interior minister Kulikov; former deputy head of the Presidential Administration Yevgeny Sevastyanyov.

Policy and political experts: former Security Council secretary Andrey Kokoshin (security issues); largely Russophile political analysts such as Alexander Tsipko, Konstantin Zatulin, and Andranik Migranian; nuclear physicist Yevgeny Velikhov.

Officials preparing Luzhkov’s possible presidential bid. In addition to Boos and Yastrzhembsky, and advertising mogul Sergey Lisovsky. See also, Colton, *Moscow*, 685–86.

21. Ibid., 691.
24. V. Razuvaev, “The Time of Independent Princes? Sketches for a Portrait of Yuri Luzhkov,” *Russian Social Sciences Review* 39, no. 1 (January-February 1998): 37, 45. Media holdings directly overseen by the city administration include three major organs: Moskovskaya Pravda (one of Russia’s largest printing press companies, which prints 40 magazines and 128 newspapers, including *Moskovsky Komsomolets*, *Novaya Gazeta*, and *Segodnya*, and after the August collapse, the *Izvestiya*); *Obshchaya Gazeta*; and *Moskovsky Komsomolets*.

Sistema has a major stake in the Metropolis publishing house (which publishes the weeklies *Literaturnaya Gazeta* and *Rossiya* as well as the publications *Moskovskaya Pravda*, *Vechernaya Moskva*, *Tverskaya 13*, *Vecherny Klub*, *Kultura*, *Kuranty*, *Metro*, and *Tsentr Plus*). Sistema also owns the advertising agency Maxima, one of the largest in Russia; the television-radio corporation TV-Sistema; the consortium Radio-Center, which owns several radio channels, including Avtoradio and M-Radio in Moscow; the consortium Narodnoe Kino (which before the crisis planned the reconstruction of 143 cinemas in Moscow and other cities); a 10 percent stake in TV6 television; and TV Tsentr Stolitsa consortium, which went on the air in June 1997 and broadcasts largely to European Russia (the city government initially owned 67 percent of TV Tsentr, while Yevtushenkov’s MKNT owned 33 percent). Sistema also owns a pool of Moscow cable networks and a satellite cable project, METEOR TV.

Despite these extensive holdings, Moscow’s media properties have not yet achieved the kind of audience ratings that could translate into political power, especially as the Duma and presidential elections approach. As a way to gain a toehold in the popular Media Most communications empire, which launched Russia’s first privately owned, foreign built communications satellite in late 1988, Luzhkov began to effect a reconciliation with Gusinsky. After the 1998 collapse, Luzhkov returned the City Duma accounts to the weakened Most bank. In March 1999, the Bank of Moscow announced it was considering a merger with Most bank. The city later opened new accounts at Most, where it reportedly intended to deposit revenues for social programs and those of the Central Administrative Okrug.


32. Colton, Moscow, 670.
33. See "Snow is Falling: Will the President and the Government Fall as Well?" Rossiskaya Gazeta, 19 November 1994.
41. R. Pipes, Russia under the Old Regime, 2nd ed. (New York: Collier Books, 1992), xxi-xxii; 23.
44. "Who Will Be the Next Ruler of Russia? The Slick City Boss, or the Rough-Edged Populist General," Forbes, 16 November 1998, 156.
46. Colton, Moscow, 697–98.
49. According to the city property committee, 13 percent of the city’s holdings are in trade and restaurants and 8.5 percent in construction firms. See Moscow Times, 8 December 1998.
53. "The Meteoric Rise of Luzhkov’s System.”
58. According to one version of how the transaction took place, Luzhkov arranged a deal whereby a controlling stake in MGTS was handed over to Yevtushenkov’s company for $136 million—$110 million of which was to clear a vague “debt” that MGTS owed
the city for “construction.” According to another account, Sistema pledged $100 million of the purchase price for future investment in the phone system—which, once fulfilled, gave the winner the right to double the amount of shares in the company and claim all new shares created, thereby diluting the shares of the other investors. In any event, Sistema was awarded MGTS in a tender run by the city property fund and it is unclear if there were other bidders. Yevtushenkov claimed there were several other bidders. Press reports at the time said there was only one other bidder, also with ties to Sistema. See Hoffman, “In Moscow, Business and Politics Mix.”

59. Ibid.
61. Matloff, “Russia’s Dynamo ‘Candidate.’”
63. Ekonomika i Zhizn’ (Moskovkiy Vypusk)10 (May 1999). See also, Ekspert 13, 5 April 1999.
68. One Moscow think tank has estimated that there are 300 off-budget funds. Komsent Vlast Weekly, 17 February 1998.
70. Ibid.
75. Another prominent example of such action took place in 1993. A Luzhkov decree turned over to the Patriarchy of Moscow property in the elite community of Peredelkino worth almost $20 million. Dozens of families living on the land were evicted without a hearing. In a series of follow-up decrees, Luzhkov ordered two city agencies to permit the church to clear the land, exempted any land used by the Patriarchy from rental payments, and ordered the city administration to pay for work “on the preparation of a marble postament (shrine) for readiness for the ritual interment of a saint’s relics and its installation in the Church of St. Gregory the Victorious on Poklonnaya Hill.” Express Chronicle, 10 May 1999, www.online.ru.
78. Pipes, Russia under the Old Regime, 284.
81. Sovetskaya Rossiya, 1 July 1999.
83. Moscow Times, 19 February 1999. In October 1991, according to one source, A. Smolensky, head of Stolichn Bank, allegedly extended to Baturina a 6 million ruble credit for the creation of a cooperative. When, on her husband’s advice, Baturina liquidated the cooperative and created another business without repaying her overdue debt to Smolensky, Luzhkov compensated the banker by authorizing Stolichn to service accounts of the
Moscow budget. See www.baturina2.org/sistema2.txt.htm.


87. Handelmman, “Russia’s Rule by Racketeers.”


91. Ibid., 2–3.


96. Galeotti, “‘Post-Industrial Mafias’.”


113. The author is indebted to Robert Otto for his assistance with this section.


115. Ibid.


119. Ibid., 33, 35, 36.

120. *Novaya Gazeta* 40, 6–12 October 1997.

In the print media, the crisis depressed the advertising market, partly because of the exodus of foreign advertisers. Negative developments also included a huge jump in printing and production costs, failures in distribution, widespread layoffs, and drastic salary reductions for those who kept their jobs. Moscow’s television broadcasters also were hit hard by a massive drop in advertising. Although TV Center, created to further Luzhkov’s presidential ambitions, had spent large amounts of money trying to build up a significant national presence, it failed to do so before the crisis gutted its revenue base and strained city hall’s ability to support it. Instead, Sistema’s lucrative banking and telecommunications holdings were believed to supply the cash to run the channel. Despite the city’s own budget problems, when the network ran into serious financial problems at the end of 1998 Luzhkov pledged to help it from the municipal budget.