

# Post-Soviet Organized Crime

## *Implications for Economic, Social and Political Development*

LOUISE I. SHELLEY

### **Introduction**

Organized crime has penetrated most of the newly independent states of the former Soviet Union at all levels of government. With such extensive infiltration into the society it ceases to be merely a crime problem, and should more aptly be described as a phenomenon that will play a significant role in determining the future course of development in the Soviet successor states. Moreover, as an international as well as a domestic phenomenon, the impact and consequences of organized crime are already being felt in its former East European sphere of influence as well as in Western Europe, the United States and parts of Asia.

The existence and pervasiveness of organized crime may preclude the transition to democracy, limit personal freedom, and thwart legitimate foreign investment and open market economies. Since organized crime has already partially supplanted many of the weak governments of the successor states, the citizens may be trading one form of control for another; domination by the Communist Party may be replaced by the controls of organized crime. As in other societies, organized crime will limit free elections, the development of civil society and freedom of the press and media.<sup>1</sup> Labor markets once controlled by state planning and submissive trade unions will instead be subject to the intimidation of organized crime which is already a major employer. State ownership of the economy will be exchanged for control of the economy by organized crime groups which have a monopoly on existing capital.

The collapse of communism may not lead to democratization and the transition to a competitive capitalist economy. Instead, the pervasiveness of organized crime may lead to an alternative form of development—political clientelism and controlled markets. The control will come from the alliance of former Communist Party officials with the emergent organized crime groups, groups that currently enjoy the preponderance of capital of the post-Soviet states. Rapid economic differentiation in income and wealth is already occurring, a process that will accelerate as privatization proceeds.

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### **The Distinctiveness of Post-Soviet Organized Crime**

Organized crime is crime perpetuated with financial objectives. Violence is rarely indiscriminate but is used to promote the economic objectives of the organized criminal group. Most organized crime groups make the most significant share of their profits from the exploitation of the market for illicit goods and services (i.e. prostitution, gambling, drugs, contract killing, supply of cheap illegal labor, stolen automobiles).<sup>2</sup> These activities combined with the extortion of legitimate businesses provide the primary income sources of organized crime groups in most societies.

Post-Soviet organized crime encompasses all of these activities. It also includes such diverse activities as illegal export of oil, valuable raw materials, smuggling of weapons and nuclear materials, and manipulation of the privatization process. These commodities now dominate the CIS nations' participation in international markets.

The most lucrative element of its criminality both within the former Soviet territory and abroad lies in the area of large-scale fraud. In the United States, organized criminals from the former Soviet Union have perpetrated massive medicare frauds and gasoline tax evasion.<sup>3</sup> In Germany they have exploited the subsidies the German state provides Soviet military troops to promote multi-million dollar frauds.<sup>4</sup> This large-scale fraud has deprived the German state of capital needed to rebuild its infrastructure. In Israel, organized crime groups counterfeit American dollars for export to the United States.

In the former Soviet states where there are almost no control mechanisms in place and a law enforcement apparatus which collapsed along with the state, fraud can assume even larger proportions, especially at a time when there is a redistribution of the state's resources.<sup>5</sup> The criminalization of the privatization process<sup>6</sup> threatens the future financial security of CIS citizens and their perceptions of market reforms.

Financial fraud assumes such a significant role in organized criminality because there is a strong influence of the crime patterns of the Soviet period on the successor states. Embezzlement (theft from the state) was the most pervasive crime in the Soviet period and was not perceived as criminal by most citizens.<sup>7</sup> A culture of financial manipulation was endemic among managers of state businesses who constantly engaged in illicit activity to achieve unattainable state production targets. Citizens failed to distinguish between state and personal property.<sup>8</sup>

In contrast, the activities that form the basis of organized crime in most societies were tightly controlled in the Soviet period. Until perestroika, Soviet law enforcers closely supervised daily life and limited such deviant activity as gambling, prostitution or trafficking in narcotics.<sup>9</sup> Therefore, international prostitution and drug trafficking are only now beginning to develop as key activities of post-Soviet organized crime.<sup>10</sup> Western law enforcement, prepared to fight traditional forms of organized crime, has just begun to restructure its investigative organs to deal with the large-scale and sophisticated frauds and financial manipulations committed by post-Soviet groups.

Post-Soviet organized crime groups apply traditional means of intimidation—extortion and violence—differently. Unlike the extortion of organized crime groups in the United States, Italy and Germany, which usually extract a fixed but tolerable amount from the businesses within their territory,<sup>11</sup> post-Soviet organized crime groups often seek short-term profits rather than long-term relationships that allow both organized crime groups and businesses to prosper. They extract such significant sums that businesses shut down or, as in Sicily, they acquire a significant stake in the enterprise.

The level of violence used by Soviet organized crime groups is also often unknown in the countries in which they are operating. During the Soviet period, there was much violence

by the state against its citizens but relatively low rates of interpersonal violence.<sup>12</sup> Many who perpetrated violence on behalf of the Soviet state now perform

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this service for organized crime. Recorded rates for violent crime in Russia and other successor states have escalated rapidly. The displays of violence are much more dramatic than in the Soviet period. In Germany, the recently arrived crime groups from the former USSR are more violent than domestic criminals. Belgium and the Netherlands report that the violence used against prostitutes smuggled into these countries by post-Soviet and central European organized crime groups exceeds that known previously against prostitutes.<sup>13</sup>

### **The Implication of Organized Crime Penetration Into the State**

The penetration of organized crime into post-Soviet governmental structures undermines citizens' perceptions of democracy. Opinion polls indicate declining confidence in the transition to democracy. The strong popular vote for ultranationalist Vladimir Zhirinovskiy represents, in part, a citizen backlash against the current political order, the rise of organized crime and the decline of order.<sup>14</sup> The premium placed on order by former Soviet citizens may result in the future election of more authoritarian governments.

A symbiotic relationship exists between organized crime and national, local and municipal governments. As the Italian experience has shown, once organized crime becomes so intertwined with all levels of government, the relationship cannot easily or rapidly be reversed.<sup>15</sup>

Organized crime has undermined the electoral process, the emergence of a viable multi-party system and the establishment of laws needed to move towards a legally regulated market economy. Organized crime has financed the election of candidates and members of the newly elected Russian Parliament, as well as those of other CIS states. Some current members of the Russian Parliament have close ties to organized crime groups. As the chair of the Duma Committee on State Security, Viktor Ilyukhin has said, the mob, “Using loopholes in the present laws, influences the adoption of political decisions up to the level of member republics of the Russian Federation.”<sup>16</sup> The alternative political power of organized crime is poised

for future growth because it has the resources to fund candidates in forthcoming elections at the local and national levels.<sup>17</sup>

Corrupt officials and legislators with ties to organized crime impede the introduction of legislation that might circumscribe organized crime activity.

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For example, members of the Russian Duma complained in July 1994 that their proposed law on corruption had its provisions concerning corruption in banking deleted at the presidential level.<sup>18</sup> The legislative framework needed to combat organized crime including banking laws, regulation of securities markets, insurance laws and such specific

measures as a RICO statute, laws against money laundering and a witness protection program have been impeded by corrupt legislators and individuals at the executive level. Many of these legal measures have already been adopted in several central and eastern European countries.

As a consequence of the corruption of the law enforcement apparatus, the passivity of the procuracy, the close ties between mafia groups and the security apparatus<sup>19</sup> and the lack of a specific organized crime statute in the criminal code<sup>20</sup> there has been no major organized crime trial in the past three years in the former Soviet Union. The lesson of this is that large-scale organized crime enjoys impunity in the successor states.

Organized crime has supplanted many of the functions of the state. A coalition of organized crime and former Party elites provides the ruling elites of many regions of Russia and many other CIS states. Organized crime provides many of the services that citizens expect from the state—protection of commercial businesses, employment for citizens, mediation in disputes. Private security, often run by organized crime, is replacing state law enforcement. Ilyukhin estimates that 100,000 unregulated private law enforcers presently operate without any regulation.<sup>21</sup> While this number is far fewer than are thought to exist in Poland, it is still a large autonomous force that is increasingly visible in Russian society.<sup>22</sup>

Organized crime is assisting the rise of regional powers in Russia. This is not the decentralization and federalism sought by American promoters of democracy. Instead it represents the rise of local fiefdoms, protected by armed bands loyal to local leaders who seek political and economic controls over their regions. These local leaders may enjoy more power than in the Soviet period because they own rather than control property and the “law enforcers” are employed by them rather than the state. In the absence of a legal framework, citizens outside major urban centers may have great trouble protecting themselves from the abuses of organized crime.

### **Economic Consequences**

The transition from a centrally planned Communist economy to a free market capitalist economy requires a fundamental reorganization of the

structure of society. If organized crime groups can infiltrate the economy at this crucial phase of transition, then, as in Sicily, it may be impossible to disassociate the economic development of the successor states from the development of organized crime. The Sicilian mafia was able to infiltrate the economy and the political development of the island because its flowering coincided with the rise of private property, the collapse of feudalism and with the industrialization of this region.<sup>23</sup> While industrialization has already occurred in many regions of the former USSR,

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the emergence of large-scale private property in Russia and the other successor states recalls the need for protection which gave rise to the mafia in Sicily a century ago.<sup>24</sup> Recent Russian sociological research indicates that some businessmen willingly pay protection because of the state’s failure to provide protection; they view their protection payments as a cost of doing business.

### **Organized Crime and Economic Development**

Pervasive organized crime does not necessarily preclude economic development. Rather, it limits the development of certain legitimate forms of investment and of open markets that benefit a cross-section of the population. The economy becomes dependent on illegitimate rather than legitimate economic activity. These commodities become central ones in the state’s participation in international markets. This is probably the greatest risk that threatens the post-Soviet economies. Precedent exists in the economies of southern Italy and Colombia which are heavily dependent on their illicit commerce in drugs.<sup>25</sup> While the post-Soviet economies are trading in a greater variety of illicit goods than these two societies, the dependence on this illegal commerce is already clear for many in the labor force. Furthermore, many of the successor states are dependent on the foreign currency acquired through this illicit trade.<sup>26</sup>

Unlike in central Europe, “Economic liberalization in Russia is not leading to the old-style black market evolving into legitimate business, but to the new, legitimate businesses being sucked into the old black market.”<sup>27</sup> Concentration of an economy in a limited range of goods and services, either legitimate or illegitimate, places an economy at risk for long term development. Sudden decline in demand or in production may have a catastrophic effect on the economy. The decline of the Soviet economy and its replacement in the successor states by organized-crime-based activity is having a deleterious effect on the future development of these economies. Industrial production in the state planned economy is collapsing but organized crime activity is rarely leading to new forms of production. Instead their activity is focused on large short-term profits rather than sustainable growth. Moreover, much of their profits are being exported,

thereby denying Russia and other CIS states the capital they need to rebuild their infrastructures.

The economic activity of organized crime is undermining economic growth in several ways. Foreign businesses do not enter the market not only because of extortion threats, but also because they cannot make profits legitimately. Much of the commerce of organized crime is in the export of strategic raw materials and military equipment. The theft of these strategic items deprives the post-Soviet states of important sources of revenue. Not all the items presently sold abroad could be legitimately marketed by the successor states, but many of the metals could be legitimately sold in Europe and the military equipment to Third World countries. Mineral shipments out of the Baltic port of Tallinn are so significant that the freighting charges are a major source of currency for the Estonian government.<sup>28</sup> Many of the weapons that have been stolen or bought from soldiers at military bases are bought by nationalist groups engaged in ethnic conflict in the successor states, particularly in the Caucasus and Central Asia.<sup>29</sup> Larger scale military equipment is being sold to Arab countries and other nations in the Third World. The profits that are obtained from the illegal sale of these items are often not repatriated to the country but are instead deposited in foreign bank accounts. Therefore, the state is suffering from a dual loss—the loss of materials as well as the problem of capital flight.

Commercial real estate is booming in Moscow and to a lesser extent in St. Petersburg. According to some estimates, organized crime controls half the commercial real estate in central Moscow.<sup>30</sup> The owners of many of the buildings now being renovated in Moscow acquired their properties through the highly criminalized process of privatization. As one popular news account reported, “The old bureaucrats dominate much of the privatization

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process, for example, often deciding who gets what at what price.”<sup>31</sup> In Moscow city officials sold the rights to auction off a building to five criminal organizations for about \$1500. “At the secondary auction, accessible to well-connected outsiders, if they

paid heavy bribes, the property sold for 250 million rubles (\$250,000). Finally the building went on the market selling for 1.5 billion rubles (about \$1.5 million). The 1,000-fold appreciation in value took all of two months.”<sup>32</sup>

Recently created wealth, much of it of illicit origin, is also fueling extensive construction of homes in the capital as well as other urban areas. Yaroslavl, a secondary city, has also seen much investment of criminal capital in real estate. The explanation for this is its proximity to Moscow, a mere several hours by train.<sup>33</sup> The vibrant but highly criminalized real estate market indicates that organized crime can contribute to domestic economic growth.

### **Organized Crime and Capital Flight**

The problem of capital flight is one of the most serious economic problems facing the post-Soviet states. The amount of money being exported is estimated at between four and 15 billion in 1992.<sup>34</sup> The extent of capital that is leaving the country is of such great proportion that it recalls the experience of Latin America during the so-called "lost decade" of the 1980s. Latin America in these years was deprived of the revenues that it needed for its economic development. The post-Soviet states are now experiencing the same problem: they are losing the capital needed to rebuild their depleted infrastructures.

All capital flight is not the result of criminal activity, rather, it is also a consequence of the instability and corruption of the banking system,<sup>35</sup> irrational tax policies, the constant depreciation of the currency and the failure of the legal system to protect economic interests.

Money exported abroad comes from several important sources. These are: the massive financial frauds committed on the territory of the former USSR and on post-Soviet military bases, the expropriation of state resources and raw materials, massive payoffs to post-Soviet officials in order to receive contracts, foreign aid assistance and the illegal privatization to members of the nomenklatura and organized crime figures.

The capital is exported and laundered by a coalition of former nomenklatura personnel, organized crime figures and former KGB personnel who have the foreign contacts and language skills<sup>36</sup> to successfully launder funds and invest them abroad. Many have developed ties with earlier emigrant groups of the 1970s and 1980s who have financial and legal expertise as well as bases of operations in Germany, the United States and Israel.<sup>37</sup>

Many of the successor states prefer to close their eyes to illegal financial activities because their economies benefit from these transactions. Until Russian Central Bank officials raised capital requirements in 1994 it was easier to establish a bank than to buy a luxury auto.<sup>38</sup> Banking is dominated by

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Officials in Latvia have not inquired into the large-scale foreign currency exchange market in Riga (much of it the consequence of organized crime activity) because the proceeds from this exchange are necessary to keep the Latvian currency afloat. In the past year, the free-standing Latvian currency has been one of the few to rise significantly against the ruble. Riga's sophisticated financial services could be compared to the off-shore banking provided in the Bahamas.

### **Organized Crime and Regional Development**

Organized crime often develops in areas that are relatively underdeveloped economically in relation to others in the region. For example, in Italy, the regions with the greatest concentrations of organized crime are Sicily, Campania, Calabria, and Puglia, areas which are underdeveloped in relation to the economies in the north. Yet those engaged in organized crime activity require proximity of individuals with superior skills in technology, communications and developed international business skills. Therefore, links have developed between the organized crime groups of the south and the more economically advanced economy of the north of Italy. A similar relationship exists in both Latin America and Asia. The Chinese in Hong Kong and Macao control the organized crime that exists in the less developed economies of Asia. The Colombians market and process the drugs which are produced in the less developed Latin American countries of Bolivia, Peru and Ecuador.<sup>39</sup>

A similar economic relationship seems to be developing between the less economically developed parts of the former Soviet Union and the more industrialized regions closer to Western Europe. The basis for this relationship already existed in the Soviet period when massive fraud was perpetrated in the cotton industry by the so-called Central Asian "mafia." By falsifying production figures, Party leaders in cahoots with collective farm chairmen and key justice officials received large payments from the central government for cotton that was not grown. Payoffs to key figures in Moscow, such as Brezhnev's son-in-law, the deputy minister of Interior, secured their immunity from prosecution.<sup>40</sup>

The illegal economic ties between the Central Asian republics and Russia have resurfaced with the collapse of the former Soviet Union. Members of the Central Asian mafias, prosecuted by justice officials from Moscow in the final years of the Soviet period, were released from prison almost immediately after the dissolution of the USSR. Their release showed the autonomy of the newly independent countries from Moscow's policies. Yet they also revealed the continuity in the links between Party officials and the legal apparatus. These reemerged organized crime groups are responsible for new forms of criminality not linked to state production. "Smuggling profits has formed the foundation of post-Communist wealth and the basis for the working cooperation between criminals and the nomenklatura."<sup>41</sup> Drug trafficking, already rising in the final Soviet period, an active arms trade to areas with ethnic disturbances<sup>42</sup> and increasingly visible smuggling of nuclear materials<sup>43</sup> have made post-Soviet organized crime very threatening to the world order.

Illicit drug trade has risen because Moscow's subsidies to the Central Asian republics declined along with the Soviet state. Furthermore, as now independent countries, they need foreign currency to act as sovereign countries. But Russia's appropriation of the resources of the former Soviet state left these countries in a much more disadvantaged position that they had known in the Soviet period. In the early post-Soviet period both Kyrgyzstan and Kazakhstan contemplated legalizing the cultivation of drugs.

But bowing to international pressure and the threat of curtailment of foreign assistance, these countries subsequently outlawed drug production.<sup>44</sup> Yet a significant drug market is developing between the drug producers of Central Asia and the more sophisticated organized crime groups in Moscow. Drug trafficking is also developing in the Far East with proximity to Asian delivery routes.<sup>45</sup>

The lowest-paying work of production is done in the areas of least development with great rates of unemployment and underemployment. For this reason, ethnic minorities are associated with drug production.<sup>46</sup> Little attention is given to the technicians who process the drugs in Russia or serve as couriers to the West. Russia is also serving as an important transshipment point for drugs. Those who launder the money from Russia and the Baltic states are dependent on the labor supply of the lesser developed regions of Central Asia.

The emergent drug trafficking from the former Soviet Union resembles the Latin American situation in several important ways. Drug production occurs in highly undeveloped areas with no alternative sources of income by populations with a tradition of drug cultivation and consumption. Processing of drugs is done in neighboring regions where there is a higher level of education and technology. The goods are then marketed in the most advanced countries. The profits made by these sales are then laundered in the countries where the drugs are sold or in others with advanced banking systems. The chain that runs from the poorest parts of Latin America through Colombia into Mexico and then the United States to the off-shore banking in the Bahamas is being replicated in the former USSR. The primary target of this illicit trade is the marginalized and unemployed youth of central and Western Europe rather than the United States.

The problems of severe underdevelopment in many newly independent Central Asian countries suggest that illicit commerce from these countries will develop further as organized crime groups become more entrenched and the states cannot offer alternative employment or sources of foreign currency. The weakly developed law enforcement systems in these societies and the lack of cross-border protection suggest that there will be great growth in organized crime activities in these less developed regions.

Organized crime groups may inflict significant ecological damage in these less developed regions. Like other investors concerned exclusively with rapid economic growth, they show no concern for the renewal of natural resources. Economic crime's domination of the economies of the successor states may prove as devastating for the environment as their domination by their Communist predecessors.<sup>47</sup> Already organized crime groups are responsible for over-fishing of sturgeon for caviar in the Caspian Sea and wholesale harvesting of lumber without concern for reforestation.<sup>48</sup>

### **Organized Crime and Foreign Investment**

Organized crime has undermined foreign investment and trade by increasing the risks of capital investment. Foreign businesses have been subject to extortion and their personnel threatened. Capital is not protected because

of an absence of: clear and permanent legal norms to govern investment and trade, reliable and honest parties with whom businesses can negotiate, trustworthy law enforcement, courts which are impartial arbiters of economic disputes, and the absence of insurance and banking laws.

The alliance of corrupt officials and organized crime groups prevents the emergence of long term trade agreements because they are not in their financial interests. The new mafiosi prefer to sell a certain amount of the state resources for their own profits rather than open trade with multinational companies which might abide by established regulations and limit their short-term gains. Many businesses, therefore, choose not to trade in the former USSR because they cannot compete with the illegal practices of organized crime.

Foreign businesses interested in international trade in oil and raw materials cannot avoid the profound corruption in this sector. International businesses often have to bribe officials who have the right to grant licenses to export oil and other valuable materials. The numerous and recently established export firms are dominated by organized crime groups.<sup>49</sup>

Therefore, United States firms are forced to violate U.S. legal norms if they seek to enter the Russian market. *The East European*, an investment magazine, reported estimates in Fall 1993 that 80 percent of all American businesses in Russia have violated the Foreign Corrupt Practices Act at least once.<sup>50</sup> Investors have to pay bribes to acquire access to lists of commercial property to rent, violate norms on the export of capital and have to submit to extortion threats.

The ill-equipped, corrupt and demoralized police make it necessary for foreign investors to turn to private guard services.<sup>51</sup> But many of these guard services are run by organized crime groups. Their staff include former KGB and militia personnel who may also engage in industrial espionage against businesses, sometimes at the behest of their employers. Businesses operating in Moscow and other major cities have purportedly appealed to the German criminal police, the FBI as well as other international police organizations to protect their personnel from personal threats.

Capital in most of the successor states is at greater risk than in other countries. The former Soviet Union, therefore, cannot compete with many other countries for legitimate capital investment. Foreign investment, like in the former East Germany and other parts of central Europe, does come from foreign organized crime groups. They have the protection mechanisms and the willingness to take the risks in the hostile environment. While mafia investment may be more a phenomenon in central Europe than in the former Soviet Union, émigré Soviet organized crime figures are repatriating capital to establish businesses. Even for them the investment climate may not be secure because corrupt officials in conjunction with law enforcement personnel may connive to acquire their newly established businesses.

### Daily Life

The threats posed to daily life are among the most serious consequences of organized crime because they affect so many citizens of all social levels and

in almost all regions of the former USSR. The impact of organized crime on daily life affects citizens' perception of the social, political and economic transition. Organized crime affects citizens through: the privatization process, increased violence in daily life, higher rates of personal and property crime, more deviance, higher prices, and reduced personal security.

### **Organized Crime and the Privatization Process**

A voucher system was initiated to provide all Russian citizens the opportunity to acquire the assets of the Soviet state. Based on the Czech model, all citizens received supposedly

untransferable vouchers to prevent their acquisition by organized crime members and other wealthy citizens. Organized crime has managed to sabotage the process in several ways. First, more vouchers were printed than were authorized. Second, organized crime members illegally acquired vouchers

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from economically desperate Russian citizens. Third, vouchers have been illegally re-used by organized crime figures.<sup>52</sup> Having access to more than their share of vouchers, organized crime has been able to acquire a disproportionate share of the businesses and the shares of larger private enterprises.

Corruption also results in the failure to cancel vouchers and their reuse. For example, a St. Petersburg official in the State Property Committee was arrested on charges of criminal negligence after discovering that city officials had canceled only 10 percent of the eight million privatization vouchers used at auctions. These already used vouchers could then be recycled and used again. Citizens have had their access to property auctions blocked<sup>53</sup> by violence.<sup>54</sup>

Individuals in charge of many of the large Soviet companies have managed to privatize the resources of these enterprises or the properties associated with them at ridiculously low prices. This has been done without allowing any citizens a chance to compete. For example, the apartments and dachas owned by large companies have been bought at prices that are a mere fraction of their value on the open market. Individuals residing in choice locations have been threatened or even killed by organized personnel in order to acquire their apartments.<sup>55</sup> The thugs of organized crime threaten the employees and retirees of enterprises eligible to acquire shares in their businesses. In this way, citizens are deprived of their property rights through violence.

The failure to regulate the emergent securities sector also places citizens' property at risk. Citizens have lost all their assets as the owners of unregulated voucher funds have disappeared with all the vouchers in their possession. Moreover, citizens' savings and their pension funds in the

hundreds of unregulated banks dominated by organized crime are at risk. The emergent stock funds are not adequately regulated. In a July interview with the head of the Anti-Mafia Fund, the author was informed that there are criminal cases against 20 different stock funds of the approximately 50 which are registered. Illustrative of the problems is the Neftalmazinvest fund (the oil diamond fund). Its name is misleading because its investments include chemical plants and hotels but none in oil and diamonds. The authorities caught up with this fund and suspended it in March of this year on charges of embezzlement.<sup>56</sup> Yet this was only one of its misdeeds. Its advertised first annual return of 750 percent was paid to only 12 of its many shareholders.<sup>57</sup> Yet the state did not address the problem of advertising fraudulent returns until July 1994 when a presidential decree was issued.<sup>58</sup> Sufficient safeguards do not exist to address other stock irregularities. In August 1994, the much-publicized MMM pyramid investment fund collapsed, depriving thousands of citizens of their savings.<sup>59</sup>

### **Organized Crime and Consumer Goods**

Organized crime members possessing large amounts of rubles have legally acquired, without much competition, a significant share of the service sector—food stores, restaurants and other businesses serving consumers. Their control of this market has meant that citizens pay higher prices in the marketplace than if a fair and competitive market operated in the consumer sector. For example, prices in Palermo markets, dominated by organized crime, are as high as in other parts of the country even though the products sold are raised in nearby Sicilian farms.<sup>60</sup>

In Russia, it is estimated that prices are 20 to 30 percent higher because of organized crime control of consumer goods.<sup>61</sup> Moreover, food prices and services are now so high in Moscow that a recent survey made Moscow the third most expensive city in the world after Tokyo and Osaka. But the average wage in Russia is a mere \$100 a month. At one time, the central planners in Moscow fixed prices. Now they are fixed by organized crime. Central planning once made goods unavailable—now their costs make them equally inaccessible to the average citizen.

### **Organized Crime and Foreign Aid**

Much foreign aid is diverted within the country. Some estimates placed as little as 6-7 percent of assistance reaching intended beneficiaries.<sup>62</sup> The appropriated assistance has been sold on black markets at prices that are inaccessible to the citizenry. Assistance has rotted rather than reached citizens. In other cases, it built dachas for the elite.

Foreign organizations have responded by alternative delivery strategies. Armed guards have escorted shipments to old age homes and orphanages. But the security of the distribution of these goods cannot be protected once the deliveries are made.

### **Organized Crime and Community Service**

When organized crime controls much of the economy of a particular area,

it may contribute to the infrastructure of the community. There is also evidence that Russian crime groups are repeating the patterns of Sicily and parts of Colombia. In these two countries organized crime groups pay for the construction of hospitals and schools as a form of insurance against the collaboration of community members with the law enforcement community. In Russia, certain organized crime figures sponsor sports events and are associated with visible philanthropic groups.<sup>63</sup> Corrupt banks contribute to educational and other community projects on a regular basis.

#### **Organized Crime and Street Crime**

Organized crime results in increased violence, street crime, property crime and more visible and pervasive deviance.<sup>64</sup> The rivalries of organized crime groups have led to armed battles in such major cities as Moscow and in secondary cities like Yaroslavl. The homicide rate in Russia has increased dramatically and now exceeds the level in Western Europe and is equal or surpasses that in the United States. The explanation for this growth are the turf wars of organized crime and the increase in contract killings.<sup>65</sup>

Robberies against CIS citizens and foreigners have increased as a result of the growth of organized crime. A significant growth in apartment burglaries and car thefts also results from the increasingly organized and professional crime. The vast majority of Russian citizens have changed their daily life as a result of the crime threat.

#### **Organized Crime and Deviance**

Organized crime has contributed to significant increases in drug trafficking and use, prostitution and gambling. Drug use has spread as a result of greater access to drugs, the commercialization of markets by organized crime and the greater demand for drugs by a demoralized population.<sup>66</sup> Gambling casinos are sponsored by organized crime in hotels and tourist sites.

The feminization of poverty in the post-Soviet period has made many women either voluntary or unwilling entrants into prostitution. Some women are recruited because prostitution pays more than any available legitimate employment either in the former USSR or abroad. Others are tricked into this work by offers of foreign hotel jobs. The women are threatened with violence and also threats are made against family members in the former USSR if they do not comply. Russian prostitutes, under the control of organized crime, work in Belgium, the Netherlands, Israel, Poland, Hungary and the Middle East.

#### **Organized Crime and the Labor Force**

The work force, once controlled by the Communist Party and centralized trade unions, may face increasing controls from organized crime. Organized crime was estimated by the Ministry of Internal Affairs to control 40,000 enterprises in 1993.<sup>67</sup> As privatization proceeds, ever more enterprises fall under the domination of organized crime which has no concern for the labor rights of individuals.

Organized crime, one of the few growth sectors in the economy, can attract employees because it can offer jobs and pay salaries that are often multiples of what individuals earn in the state sector. Evidence of this is the numerous departures from the police apparatus for employment in the private security sector. The limited employment prospects of many individuals make them easy targets for the false employment schemes offered by organized crime members. Organized crime exploits labor by smuggling men to low paying jobs abroad and using child labor in unregulated conditions at subminimal wages.<sup>68</sup>

Crime groups may impede the development of trade unions independent of state control because this would restrict or at least diminish their control over the labor force. At present some crime groups exercise influence over established trade unions—the benefits of this are the same as in the United

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*“Organized crime figures are acquiring newspapers and attempting to buy television stations.”*

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States and other countries—to gain influence over the labor force, and access to pension funds. In Russia, there is one additional incentive, to obtain the resources of privatizing enterprises. The successor states

must take precautions to ensure that the collapse of the USSR does not mean the substitution of one form of labor market control for another.

### **Organized Crime and Ethnic Groups**

Minority groups long assumed an active role in the second economy or black market. As the underground economy has evolved into the present organized crime phenomenon, ethnic minorities continue to assume an active role. Often they act in conjunction with Russians, the dominant ethnic group in Russia.

The active participation of ethnic groups in organized crime is leading to increased ethnic conflict and hostility. The Chechens are blamed for leading organized crime in Moscow and in many other foreign countries. After the storming of the Parliament in October 1993, non-Russians, particularly individuals from the Caucasus, were expelled from Moscow because of their alleged involvement in organized crime.

Access to Moscow residence permits is still restricted, although organized crime figures can always bribe local law enforcement to permit them to stay in Moscow. Yet the legal restrictions on their residence means that they are always vulnerable to extortion and expulsion by the police.<sup>69</sup>

### **Organized Crime and Civil Society**

Organized crime is impeding the development of civil society. The establishment of institutions independent of the state is a fundamental prerequisite to the creation of civil society. Organized crime figures are acquiring newspapers and attempting to buy television stations. Courageous journalists are routinely intimidated and investigative journalists are offered significant bribes to cease their investigations. Articles on organized crime

may be purposely deceiving as organized crime figures plant stories against their rivals or purposely mislead the public. Commercialism and the influence of organized crime are contributing to a less probing press and are hindering the development of a legitimate free press.<sup>70</sup>

The involvement of organized crime in numerous philanthropic organizations is also evidence that the emergent civil society is being corrupted from within. Citizen volunteerism was once dominated by Communist Party institutions, now it responds to the needs of organized crime. This infiltration occurs because of the contributions often made by foreigners to these charities. Furthermore, these organizations lend themselves to money laundering operations.

While organized crime impedes the development of certain aspects of civil society, it cannot be denied that organized crime groups may be a manifestation of civil society. They are groups that exist outside of state control; they are helping to fill the vacuum in society. But they are not a positive force that check state authority, rather they exist as a parallel and illegitimate force within the society.

### **Conclusion**

The most critical question concerns the future evolution of these illicit economic entrepreneurs. Will they remain like the mafia and Camorra and persist in their illegal activities at the expense of their home communities and international markets? Or will they develop like the robber barons of the United States in the past century who evolved into the major philanthropists of American society? The answer may be premature, however it is certain some unique post-Soviet variant will develop. Post-Soviet organized crime bears certain resemblances to the organized crime phenomena in other societies but it is unique because it is strongly affected by the socialist state which preceded it.

Comparing post-Soviet organized crime with Colombia or Italy rather than the United States reveals the political, economic and social costs which have touched all sectors of the society.<sup>71</sup> The penetration of organized crime into the state has limited democracy. Economic growth has occurred but it has been very unequally distributed within regions and commercial sectors of the societies. Homicides have increased in areas with concentrations of organized crime. Both Colombia and Italy have discovered that once organized crime penetrates the state, the latter will not be able to disassociate itself from the former—even with the investment of significant manpower, economic resources, the application of intense repression and the sacrifice of many well-meaning individuals.

The former states of the USSR which lack the resources and the will to combat the organized crime phenomenon may be in worse shape than Italy or Colombia. The consequences of their impotence will be apparent in the future political, economic, social and cultural development of their societies. As in Italy and Colombia, the consequences of such organized crime will be not only a domestic concern but one with broad international implications. Post-Soviet organized crime poses an even greater threat to the world order

because of its access to nuclear materials.

Organized crime's domination of the economies of many of the successor states will determine many aspects of the post-socialist transition in the coming decades. It will not necessarily impede economic growth because as the Italian experience has shown, high rates of growth are possible even with organized crime penetration into the central state. But it will preclude certain forms of development. Illegitimate commerce may predominate at the cost of legitimate business funded by foreign investment. Environmental damage, such as was perpetrated in the Soviet period, may continue because organized crime entrepreneurs are more concerned with short-term profits than long term consequences.

A very unequal pattern of economic development may occur because organized crime thrives when there are greater variations in economic development. Residents in areas with high rates of unemployment, little

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***“The penetration of organized crime into the state has limited democracy.”***

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prospect of development or investment may accept the employment offered by organized crime or may cultivate illicit crops like drugs because they have limited economic alternatives. Free labor markets

may not emerge because the coercion of organized crime groups may supplant that of the Communist Party.

The major economic threats from the present organized crime structures are the exportation of much needed capital and the depletion of the resources of the former Soviet Union. If too much capital is sent abroad there will not be the funds needed to develop the economy. Furthermore, the organized crime groups are depriving successor states of natural resources that they will need for the subsequent development of their economies.

The scenario appears depressing but a political consensus is now emerging that a legislative framework must be established. Non-governmental groups concerned with combatting organized crime are also developing. If the political will is mustered, Russia may be on the verge of beginning the long, sustained attack on organized crime that must be launched if it is to diminish the influence of organized crime on the future development of the state.

## Notes

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<sup>2</sup> Howard Abadinsky, *Organized Crime*, 3rd. edition (Chicago: Nelson Hall, 1990), pp. 267-395.

<sup>3</sup> “The Russian Con Men who Took California” *Newsweek*, 13 December 1993, p. 28 and State of New Jersey Commission of Investigation, *Motor Fuel Tax Evasion* (Trenton, New Jersey: State of New Jersey Commission of Investigation, 1992).

<sup>4</sup> »Alarm, jetzt kommen die Russen,« *Der Spiegel* No.25, 1993, pp. 100-111.

<sup>5</sup> Sergei Khmelev, “Bank Fraud: New White-Collar Organized Crime,” *CJ International*,

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<sup>6</sup> Leonid L. Fituni, "CIS: Organized Crime and Its International Activities," Center for Strategic and Global Studies, Russian Academy of Sciences, Wilbad Kreuth, 1993, p.12.

<sup>7</sup> Lydia S. Rosner, *The Soviet Way of Crime: Beating the System in the Soviet Union and the U.S.A.* (South Hadley, Massachusetts: Bergin and Garvey, 1986).

<sup>8</sup> Maria Los, *Communist Ideology, Law and Crime: A Comparative View of the USSR and Poland* (London: Macmillan Press, 1988).

<sup>9</sup> Anthony Jones, Walter D. Connor and David E. Powell eds., *Soviet Social Problems* (Boulder: Westview Press, 1991).

<sup>10</sup> Giovanni Falcone, »PM: Una Carriera da Cambiare,« *Micromega* No.3, 1993, p. 56; Rensselaer Lee and Scott MacDonald, "Drugs in East," *Foreign Policy* (Spring 1993), p.96.

<sup>11</sup> Diego Gambetta, *The Sicilian Mafia The Business of Private Protection* (Cambridge: Harvard University Press, 1993).

<sup>12</sup> Louise Shelley, "Interpersonal Violence in the Soviet Union," *Violence, Aggression and Terrorism*, Vol. I No. 2, 1987, pp. 41-67.

<sup>13</sup> Interview with Cyril Fijnaut in Budapest, Hungary, August 1993 who had prepared a parliamentary report on prostitution in these two countries.

<sup>14</sup> Citizen concern over organized crime is reflected in «Vzrosloe naselenie Rossii: Ezhemesiachnyii monitoring obshchestvennogo meneniia» (March-August), *Informatsionnyi biulleten monitoringa*, October 1993, p.26.

<sup>15</sup> Raimondo Catanzaro, *Men of Respect: A Social History of the Sicilian Mafia* (New York: Free Press, 1992); Pino Arlacchi, "La Grande Criminalita in Italia," *La Revista del Libri* (April 1993), p.38.

<sup>16</sup> "Duma Adopts Anticorruption Bills," *FBIS Daily Report*, 16 May 1994, p.32.

<sup>17</sup> A. Uglanov, «Prestupnost i vlast.» *Argumenty i Fakty* No. 27, (July 1994), pp.1-2.

<sup>18</sup> Interviews with members of the Committee on Defense and Security of the Council of the Federation, July 1994 in Moscow.

<sup>19</sup> Vladimir Ovchinsky, *Mafiya: Neobiavlennyi vizit* (Moscow: INFRA-M, 1993), pp. 114-115.

<sup>20</sup> For a discussion of the crisis in fighting post-Soviet organized crime see A.I. Dolgova and S.V. Diakova, *Organizovannaia Prestupnost*, Vol.2 (Moscow: Kriminologicheskaya Assotsiatsiya, 1993), pp.175-208.

<sup>21</sup> Interview by author in Moscow in July 1994.

<sup>22</sup> Michael Specter, "Guns for Hire: Policing Goes Private in Russia," *New York Times*, 9 August 1994, p. A4.

<sup>23</sup> Paolo Pezzino, *Una Certa Reciprocita di Favori Mafia e modernizzazione violenta nella Sicilia postunitaria* (Milano: Frano Angeli, 1990) and Gambetta.

<sup>24</sup> Gambetta.

<sup>25</sup> Lee and MacDonald; Pino Arlacchi, *Mafia Business: The Mafia Ethic and the Spirit of Capitalism* (London: Verso, 1986), pp.187-210.

<sup>26</sup> Seija Lainela and Pekka Sutela, "Escaping from the Ruble: Estonia and Latvia Compared," Paper presented at the Third EACES workshop on "Integration and Disintegration in European Economies: Divergent or Convergent Processes?," Trento, March 4-5, 1993.

<sup>27</sup> "The Rise of the Gangster-Industrial Complex," *East European Investment Magazine* (Fall 1993), p.106.

<sup>28</sup> "Global Mafia," *Newsweek*, 13 December 1993, p. 28.

<sup>29</sup> Joseph Serio, "Organized Crime in the Former Soviet Union: New Directions, New Locations," *CJ International*, Vol.9, No.5 (Sept.-Oct. 1993), p.15.

<sup>30</sup> Paul Klebnikov, "Joe Stalin's Heirs," *Forbes*, 27 September 1993, p.131.

<sup>31</sup> *Ibid.*, p.124.

<sup>32</sup> "The Rise of the Gangster-Industrial Complex," p. 109.

<sup>33</sup> "Yaroslavl's Fight Against Organized Crime," *FBIS Daily Report*, 20 April 1994, pp. 12-13.

<sup>34</sup> Rensselaer Lee III, "Soviet Organized Crime," paper presented at the Wilson Center, Smithsonian Institution, 2 November 1993; Khlebnikov, p. 130.

<sup>35</sup> Ovchinskii, pp. 115-117.

<sup>36</sup> "Deputy Minister of Security Arrested for Corruption," *RFE/RL Daily Report*, No.125, 5 July 1993.

<sup>37</sup> Together these groups commit financial frauds. Some of these frauds have costs not only for the post-Soviet states but also for foreign governments. For example in Germany, complex financial schemes are developed to exploit the subsidies that the German government is to provide the post-Soviet military troops on their territory.

<sup>38</sup> Ernesto U. Savona and Michael A. DeFeo, "Money Trails: International Money Laundering Trends and Prevention/Control Policies," paper presented at the International Conference on Preventing and Controlling Money Laundering and the Use of the Proceeds

of Crime: A Global Approach, Courmayeur, Italy, 19-20 June, 1994, p.17.

<sup>39</sup> Louise Shelley, "The Internationalization of Crime: The Changing Relationship Between Crime and Development," in *Essays on Crime and Development* ed. Ugljesa Zvekcic (Rome: United Nations Interregional Crime and Justice Research Institute, 1990), pp. 119-134.

<sup>40</sup> Arkady Vaksberg, *The Soviet Mafia* (New York: St. Martin's Press, 1991) and Virginie Coulloudon, *La Mafia en Union Sovietique* (Paris: JCLattes, 1990).

<sup>41</sup> Stephen Handelman, "The Russian 'Mafiya,'" *Foreign Affairs*, Vol.73, No.2, p. 88.

<sup>42</sup> V.S. Ovchinsky, *Strategiya borby s mafiei* (Moscow: SIMS, 1993), pp. 96-100.

<sup>43</sup> Michael R. Gordon and Matthew L. Wald, "Russian Controls on Bomb Material Are Leaky," *New York Times*, 18 August 1994, p.A1 and A10.

<sup>44</sup> Rensselaer Lee III, "The Illicit Drug Market in the CIS: Scope, Dynamics and Policy Implications," Paper presented at the Conference on Narcotics in the CIS Region, Meridian House, Washington, D.C., 11 September 1992.

<sup>45</sup> Yelena Matveyeva, "Narcobusiness getting a foothold in the Far East," *Moscow News* No.26, 25 June 1993, p.13.

<sup>46</sup> *Ibid.*

<sup>47</sup> In an interview in Moscow with former Procurator General Alexander Sukharev in July 1994, he suggested that there were Party sanctions for those who caused environmental destruction. Now there are no controls on environmentally harmful activity.

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<sup>49</sup> "The Rise of the Gangster Industrial Complex," p.108.

<sup>50</sup> *Ibid.*, p.111.

<sup>51</sup> Georgy Ovcharenko, «Pokupaiu Pistolet,» *Pravda*, 23 March 1989, p.6.

<sup>52</sup> "St. Petersburg Gangsters Push for Economic Power," *Current Digest of the Soviet Press*, Vol.XLV, No. 51, 19 January 1994, p.14.

<sup>53</sup> *Ibid.*, p.14.

<sup>54</sup> Jonas Bernstein, "Organized Crime Said to be Stifling Russia's Economy," *The Washington Times*, 28 January 1994, p. A16.

<sup>55</sup> Anya Vakhrusheva, "Flat-Swapping in Moscow: A Risky Business," *The Moscow Times*, 4 June 1994, p.1; "Yerin Calls for 'United Front' Against Crime," *FBIS Daily Report*, 16 May 1994, p.22.

<sup>56</sup> Elif Kaban, "No Regulation, No Security in Russian Securities," *The Moscow Times*, 6 July 1994, p.12.

<sup>57</sup> William Barclay, "Privatization Chief Vows Fraud Crackdown," UPI wire service, 23 March 1994.

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<sup>59</sup> "MMM Shareholders Declare Hunger Strike," *RFE/RL Daily Report*, 8 August 1994, p.1.

<sup>60</sup> Gambetta, pp. 201-211.

<sup>61</sup> "Crime, Corruption Poses Political, Economic Threat," *Current Digest of the Soviet Press*, Volume XLVI, No.4, 23 February 1994, p.14.

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<sup>63</sup> Khlebnikov, p.128; Igor Baranovsky, "To Jail in American from Russia—With Love," *Moscow News*, No.26, 25 June 1993, p.13.

<sup>64</sup> "Crime in Russia: The High Price of Freeing Markets," *The Economist*, 19 February 1994, p.58.

<sup>65</sup> Igor Baranovsky, "Professional Killers," *Moscow News* No. 52, 31 December 1993, p.12. and "Yerin Calls for 'United Front' against Crime," p.22.

<sup>66</sup> "Russia Seen Vulnerable to Widespread Drug Abuse," *FBIS Daily Report*, 6 June 1992, pp. 1-2.

<sup>67</sup> Brian Duffy, Jeff Trimble and Yuri Shchekochikhin, "The Wise Guys of Russia," *U.S. News and World Report*, 7 March 1994, p. 45.

<sup>68</sup> Louise I. Shelley, "Entrepreneurship: Some Legal and Social Problems," in *Privatization and Entrepreneurship in Post-Socialist Countries*, Bruno Dallago, Gianmaria Ajani and Bruno Grancelli eds. (New York: St. Martin's Press, 1992), p. 316.

<sup>69</sup> "Moscow City Official on Visitor Registration," *FBIS Daily Report*, 9 December 1993, pp. 47-48.

<sup>70</sup> Interviews with journalists in Moscow in July 1994.

<sup>71</sup> Rensselaer Lee III, *The White Labyrinth: Cocaine and Political Power* (New Brunswick, N.J.: Transaction, 1990).