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VADIM VOLKOV

THIS ARTICLE IS ABOUT THE ROLE of organised violence in the process of market building and state building in Russia. But instead of offering yet another review of the notorious Russian organised crime I will analyse institutions and practices of violent entrepreneurship, criminal as well as legal. Violent entrepreneurship can be defined as a set of organisational decisions and action strategies enabling the conversion of organised force (or organised violence) into money or other market resources on a permanent basis. If consumer goods, for example, constitute the major resource for trade entrepreneurship, money for financial entrepreneurship, information and knowledge for informational entrepreneurship, and so forth, violent entrepreneurship is constituted by socially organised violence, real or potential. Violent entrepreneurship, however, is different in one important respect: throughout modern history, organised violence, unlike other resources, has been managed and controlled by the state alone, that is by public rather than private authority and used for public rather than private ends. That is why with the rise of modern centralised states this key resource has been largely excluded from the sphere of private entrepreneurship. In today's Russia it is back again: I intend to demonstrate that what from the macro perspective appears as the crisis of the state takes in everyday practice the form of violent entrepreneurship.

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

The institution of enforcement partnership

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

What stimulated the spread of protection racket? Because a substantial part of the assets of the first private entrepreneurs originated from illegal shadow dealings in the Soviet era, they were naturally unwilling to have any relations with the state police. The state police, in turn, generally did not regard *kooperatory* as legitimate objects of protection—not least because of the negative Soviet moral attitudes towards private entrepreneurs—thus leaving an empty niche for alternative informal groups forcefully offering protection services.

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

In contemporary Russian business vocabulary the functions of enforcement partnership are referred to by the modest phrase ‘to solve questions’ (*reshat' voprosy*). What does it involve? The first racketeer groups were mainly engaged in physical protection from other such groups and debt recovery (*smotreli chtoby ne naezzhali i ne kidali*). As private entrepreneurship developed and the intensity of transactions increased, the functions of enforcement partners diversified. They actively participated in business talks, giving informal guarantees of transactions and demanding such from other enforcement partners involved in the deal. These tasks were performed either by organised criminal groups or state police and security employees acting on an

informal basis. Expert and interview sources indicate that even today the majority of high-value business agreements can only be concluded given the participation and mutual guarantees of enforcement partners. Apart from security, risk control, debt recovery, and dispute settlement, enforcement partners also came to mediate relations between private business and the state bureaucracy, helping to obtain permissions and licences, registration, tax exemptions, as well as using the state organs (police, fire inspection, sanitary control services, and the like) to impose damage on the companies of their competitors.

The evolution of patterns of enforcement partnership is described by the participants by three terms: 'to get' (*poluchat'*), 'to control' (*kontrolirovat'*) and 'to hold a share' (*byt' v доле*). A brigade of racketeers 'gets' (the tribute in cash) from a business in return for protection from other such brigades. A criminal group 'controls' a business enterprise when in addition to physical protection it introduces its own book-keeper or regular auditor to this enterprise, who supplies information about business transactions and their value, while the group supervises and secures major contacts and transactions for a fixed share of profits. At this stage the group can be said to turn from racket to enforcement partnership. When a group of violent entrepreneurs that 'solves questions' for a business enterprise invests its money in this enterprise and introduces its representative on to the board of directors, it becomes a shareholder and increases its share of income. If at the earlier stage enforcement partners preferred one-time big gains achieved by active intimidation and violence, the increasing competition between them and their aspiration to control the business produced incentives for creating a more favourable environment for and sustained relations with the clients to achieve longer-term gains.

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

For the client enterprise these payments constitute transaction costs. Transaction costs are the costs required to transfer and secure property rights, gain access to resources, and maintain business relations.⁷ They refer to institutional conditions of business activity in the market economy and include costs of making an exchange, such as discovering exchange opportunities, negotiating, monitoring and enforcing exchange relations, and costs of maintaining a judiciary and police apparatus that

protects institutional structures of economic exchange. A large number of small and medium-size firms ended up under the control of criminal groups either because of the shadow nature of their own economic activities or because they yielded to the intimidation tactics of criminal groups. In most cases, however, criminal groups were simply more efficient than the state organs in solving day-to-day problems of the new Russian entrepreneurs. Because of a predatory tax system and inefficient state protection and arbitration, the transaction costs incurred by using private rule-enforcers were lower than the costs of legal economic activity.⁸

Thieves and bandits

The legendary Soviet criminal underworld, the world of thieves (*vorovskoi mir*), has received a fair amount of scholarly attention.⁹ Formed in labour camps and prisons in early Soviet times, the world of thieves became a powerful informal organisation that survived until the end of the Soviet system. Thieves observe a complex set of mores and prohibitions that regulate their relations with one another, with authorities and with outsiders. Prohibitions are particularly strong with reference to having a legitimate job and a family, co-operation with prison or any state authorities, the use of violence towards other thieves unless a collective decision is taken, and personal luxury. The central element of the world of thieves is the so-called *obshchak*, the communal fund which accumulates the money acquired by theft and other illegal methods. Having donated the money to the *obshchak*, the thief then receives from it his share, which makes his living. But the bulk of the *obshchak* is used to support those who are serving prison terms. The élite of this underworld consists of the so-called 'thieves-in-law' (*vory v zakone*), whose main function is *obshchak* management and exercise of criminal justice. Recent journalistic publications claim that the world of thieves has been challenged by a new type of criminal structure—the world of so-called 'bandits'.¹⁰ Because of restricted space we shall not reproduce the journalistic descriptions but will turn straight to the interpretation of the differences between thieves and bandits from the standpoint of the socio-economic conception elaborated in this article.

Unlike bandits, thieves are not engaged in violent entrepreneurship. The thief's major task is to steal (in a broad sense) and avoid being caught. They do not produce anything and tend to keep a low profile unless in their own milieu. The bandit, on the contrary, considers himself a supplier of certain services—or at least makes such claims to his clients. His claim to being productive and his ability to affect business transactions derives from his capacity to apply and manage organised force. This capacity should be conspicuous, since it represents the group's major market resource and the source of income. Hence the elaborate system of external symbolic attributes (gold decorations, sport haircuts, leather jackets, etc.) and easily recognisable assertive style of behaviour. One would find it hard to identify thieves in urban public places, while bandits are easily recognisable. The thief's income comes from illegal secondary redistribution of property and consists of the private property of other citizens or state property appropriated by illegal means. The bandit aspires to receive a share of income of other entrepreneurs, which, as he claims, has been produced under his patronage or participation of the organised group that he represents. His

income, therefore, derives from the redistribution of profit and takes the form of either profit share or tax. Being a type of entrepreneur, bandits seek regular income on the basis of a long-term business relationship and often claim to establish and enforce order, which is why they can sometimes come into direct conflict with thieves, for instance, when forcing them out of city markets and night clubs.

The ethic of thieves is a projection of values and rules of prison life into civic ('free') life. Prison and labour camp terms are the major source of thieves' authority, respect and career advancement to the highest title of thief-in-law. The bandits' mores were formed in the domain of civic life, they are more rational and practical, containing less prohibitions and constraints. The bandit's reputation and his rise to the élite position of *avtoritet* (authority) is built on precedents of vigorous and successful use or management of violence; of central importance is the combination of skilful use of force and organisational skills. Unlike thieves, many bandit groups ban alcohol and drugs. Instead they cultivate a healthy life-style, strict discipline, and physical fitness maintained in specially rented gyms which serve as one of the permanent meeting grounds of the group. If the system of thieves' values and mores ensured their capacity for group survival in the severe repressive conditions of the Soviet labour camps, the value system of the bandits is functionally subjected to the reproduction of the group's capacity to participate in the economic life of society as violent entrepreneurs. Thus, if the world of thieves is a product of the strong repressive state, the world of bandits emerges out of illegal use of violence in conditions of the weak state.

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

Criminal groups

So what is usually referred to by the Russian police organs as an 'organised criminal group' (*organizovannaya prestupnaya gruppirovka*) can also be seen as an illegal violent entrepreneurial agency.¹¹ How did they initially form in Russia? Common-place assertions about either territorial or ethnic formation principles should be treated with caution.¹² One should not infer from that that the criminal group is tied to the name-giving territory (e.g. Solntsevskaya gruppirovka, from Solntsevo, a Moscow suburb) or that it recruits its members on a strictly ethnic basis (e.g. the Chechens), although it is generally true that the name of the group originally refers to the type

of ties that enabled initial trust between members and established their common identity. In Petersburg the first bandit-like groups called 'brigades' (*brigady*) grew from two types of primary ties: non-resident students' communes (*zemlyachestva*) and sport schools. The most influential Tambovskaya group was formed in the late 1980s by several students who came to receive higher education in then Leningrad institutes (including the Institute of Physical Culture) from the town of Tambov. Many of such non-resident communes from other cities (Murmansk, Vorkuta, Perm', Kazan') became centres of gravity for other sport-like violent young people willing to earn a living by the use of force. Thus emerged Murmanskie, Vorkutinskie, Permskie, Kazanskie and the like. Groups formed by Leningrad residents recruited local sportsmen (mainly boxers, weightlifters, wrestlers and the like) whose primary cohesion and trust had formed throughout their joint sport careers. Unlike the migrant brigades that used topographical labels, the names of the local ones derived either from the kind of sport (e.g. Bortsovskaya brigada, the wrestlers' brigade) or from the name of the leader—thus emerged Malyshevskie (from A. Malyshev) or Kudryashevskie (from P. Kudryashev).

Many groups have gradually lost their original direct connection with some obscure suburb, sport club, ethnicity or founding leader. Actually, the meaning of the criminal group's name is its practical usage. In the practice of violent entrepreneurship such names are used as trade marks.¹³ The licence to use the trade mark practically means the right to introduce oneself as 'working with' such-and-such criminal group or with *avtoritet* X. Such a licence is supplied to a brigade or an individual member by the *avtoritet*, the leader of the group, normally after the candidates have been tested in action. For example, for the killing of the managing director of Petersburg northern airport, Rzhavka, one Andrei F. received \$500 cash and the right to introduce himself as Murmanskii (i.e. belonging to the Murmanskaya organised criminal group).¹⁴ The amount of cash may seem surprisingly low, but what really mattered in this particular case was the acquisition by the young bandit of the right to exploit the trade mark.

The name of the group has a specific function in the practice of violent entrepreneurship: it guarantees the 'quality' of protection and enforcement services and refers to the particular kind of reputation that is built from the known precedents of successful application of violence and 'question solving'. Because the functional necessity of the institution of enforcement partners derives from high entrepreneurial risks, the media stories about 'horrible' and 'omnipowerful' bandit groups only help to sustain the functional necessity of this institution and support the reputation of such groups. Before signing formal business contracts, companies acquire information about each other's enforcement partners ('whom do you work with?') and arrange a meeting between enforcement partners (*strelka*). Besides that, each of the participating sides would check whether the others really work with the group they claim to, and would seek additional information about the real power (reputation as well as actual firepower) of that group. The deal with all its formal juridical and business attributes will only be signed after the enforcement partners have recognised each other and given mutual guarantees. Likewise, a *strelka* will be immediately set up if one of the sides fails or refuses to fulfil its obligations. The outcome may be either a peaceful solution as to how the damage will be repaired or a violent

showdown (*razborka*). But in the long term *razborka* may be a more costly and less efficient solution, especially if it leads to protracted warfare that causes severe damage—primarily to the business firms controlled by the opponents.

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

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

The older the group and the higher its reputation embodied in its name, the more stable is the mechanism of rent and the less is the amount of actual violence required to perform the functions of enforcement partnership. The use value of the sign of force consists in its capacity to substitute for actual violence and thereby to increase the efficiency of violent entrepreneurship by reducing its costs and potential combat losses. This, in turn, can free investment resources and enable the transition from external control to shareholding and thus to more legal and 'civilised' entrepreneurship. The earlier mentioned Tambovskaya group, it seems, displays this pattern of transformation into a business enterprise: it now owns the major share of the Petersburg Fuel Company (Peterburgskaya toplivnaya kompaniya), which dominates the Petersburg and north-western Russian oil and petrol market.¹⁵

There is a good deal of confusion (or bias) in the statistics reflecting the degree of criminal control of the new Russian market economy. The most widely cited data are those provided by the Ministry of Internal Affairs (MVD) in January 1994 with reference to the estimates of the Russian Government Analytical Centre for Social and Economic Policies. It established that criminal gangs controlled or owned (the terms were not specified) 40 000 businesses including 2000 in the state sector. The majority of businesses (up to three-quarters) paid illegal protection money.¹⁶ The Analytical Centre of the Academy of Sciences provided even more alarming data, stating that 55% of the capital and 80% of the voting shares of private enterprises had been transferred into the hands of criminal capital.¹⁷ These and similar estimates inspired the authors of the US Center for Strategic Studies report on Russian organised crime

to claim that 'roughly two-thirds of Russia's economy is under the sway of the crime syndicates'.¹⁸

Later and more sober analyses, such as the study of privatisation in Russia conducted by a group of scholars from the USA, established that these figures were inaccurate and unspecified: they were either exaggerations or in fact related to small business only. Thus, the 40 000 businesses referred to in 1994 were four times the number of medium-size and large enterprises that were privatised at that time and twice the number of large enterprises in existence.¹⁹ 'Many big privatised firms are unprofitable, and even organised crime wants a risk-adjusted return', wrote the authors of the study. 'It is hard to imagine why organised crime would want to control weak firms that are cutting employees, reducing capacity, confronting serious cash flow problems, and struggling to supply the kindergartens, housing and hospitals their employees need'.²⁰ Surprisingly, at the end of 1997 the MVD provided data that almost replicated those for 1994: 40 000 economic subjects, including 1500 state enterprises, over 500 joint enterprises, and over 500 banks were said to be controlled by criminal groups.²¹

Understandably, any quantitative account of the criminal control of the economy is bound to be rather rough because of the lack of adequate accounting methods and reliable information. Sociological surveys of entrepreneurs seem to draw a more accurate picture. Thus, according to a study conducted in 1996–97, 11% of the entrepreneurs sampled admitted that they were inclined to use force as a method of problem solving; 42% had experienced the use of such methods; 53% admitted regular payments for protection services, of whom more than a third described the level of such payments as substantial.²² Importantly, this does not imply that all protection money goes to criminal structures. Rather, it indicates the existence of alternative structures that provide the same services.

The legalisation of private protection

With the adoption of the Federal law 'On private detective and protection activity' on 11 March 1992 and of the 'Regulation on the extra-departmental protection (*vnevedomstvennaya okhrana*) of the Interior Ministry organs' on 14 August 1992 the former state security officers legally entered the private market for protection and enforcement services. Before that former KGB and MVD cadres, professionals in the use of violence, had been participating in providing such services illegally, on a par with criminal groups. It is with their involvement in the business of illegal private protection and dispute settlement that the term 'roof' (*krysha*) gained currency. Such terms as *komitetovskaya krysha* (KGB-provided roof), *mentovskaya krysha* (MVD-provided roof) and *banditskaya krysha* (roof provided by criminal bandit groups) entered the business vocabulary in 1991 to refer to a standard package of enforcement partnership services, depending upon the origin of the supplier. Even today expert sources estimate that up to 20% of FSB (former KGB) cadres are engaged in informal 'roof' business.²³

The legalisation of protection business introduced a new agent to the Russian market—the private protection company. The policy of setting up private protection companies was a complex and perhaps well-calculated response to the difficulties of

the market transition. On the one hand, the criminal market for protection and enforcement services had by then taken shape, and the demand for such services was increasing owing to the rapid privatisation campaign and the development of financial institutions. On the other hand, there were a number of factors inside the state coercive institutions that produced such a response. First, the functional crisis of these structures and the moral pressure put on them by democratic public opinion, accusing them of being the foundation of the 'totalitarian' state, stimulated the dismissal of security professionals and their search for alternative employment. Second, the decline in central financial support for the state security and police forces created incentives to search for alternative, extra-budget sources of support. Third, the involvement of the state security forces in the structures of private protection was initially part of the effort to infiltrate the criminal business, the tactic known as 'control from within'. But later, operative goals conveniently coincided with financial interests, as the legal business of private protection started to grow. Thus, the privatisation of the state security forces through their involvement in violent entrepreneurship reflected the state crisis, but it may have also helped to discover new forms of state control of the private economy, more appropriate to the new market conditions.

By the end of 1997 Russia had 10200 registered private protection and detective agencies with 140 600 employees. In the city of Moscow and Moscow region over 30 000 people work in more than 1500 private security structures.²⁴ The city of Petersburg and Leningrad region have 765 private protection and detective companies with over 15 000 employed.²⁵ These figures give us the average of 14 employees per protection company for Russia overall and 19.6 and 20 for Petersburg and Moscow respectively. In fact large companies are few, less than 20, most of which are Moscow or Petersburg-based. Private protection companies are grouped according to the personnel numbers, annual turnover, and the number of protected 'objects'. The large ones are those having over 100 licensed armed guards, over \$1 million turnover, and over 15 objects; the medium have 50 to 100 guards, \$500 000 to 1 million turnover and five to 15 objects; and the small ones have under 50 guards, less than \$500 000 turnover and less than five objects.²⁶ No unified statistical survey reflecting the structure and geographical distribution of private protection companies has been published so far. From the scanty data available one may assume that the number of such companies and their size are generally proportionate to the scale of business activity in the region. Thus, the city of Chelyabinsk has 150 private protection companies, the city of Novgorod between 50 and 60.²⁷ According to expert estimates, the highest growth rates of this type of business were achieved in 1993–94; by the end of 1996 the market had stabilised and further possibilities of extensive growth were exhausted.²⁸

The legalisation of the business of private protection also gave additional opportunities to criminal groups. Many of them either created their own protection companies or hired personnel of the companies established by the police to do part of the job—the latter phenomenon is known as 'combined roofs'. In Petersburg, for example, one of the oldest and most prominent protection companies, Scorpion, was set up and headed by A. Efimov (nickname Fima), one of the *avtoritety* of the Tambovskaya criminal group, and actively used to draw police officers to perform the

'roof' functions. Scorpion was closed down by the authorities at the end of 1996; its director managed to escape but was tracked down in Ukraine and arrested a year later.²⁹ In Moscow, the guards of the special police unit Saturn protected one of the *avtoritety* of the Koptevskaya criminal group, V. Naumov (Naum), and his company Merando on the basis of a formal contract—until the successful assassination of Naumov by a rival group in January 1997.³⁰

Private protection companies

The majority of senior staff of large private protection companies are former officers of the state coercive organs—KGB (FSB), MVD and the Army Intelligence Department (GRU) in the rough proportion of 50%, 25% and 25% respectively.³¹ The first private protection company set up in 1991 in Moscow to help to draft new regulations for protection business was the detective bureau Alex. The former army intelligence colonel A. Markarov became its director. Alex strengthened its position after its guards joined the defence force of the White House, Boris El'tsin's residence during the August 1991 coup. But its first serious 'object' was the Moscow night club Night Flight, defending which (unlike the White House) Alex guards several times used their firearms. The following year the bureau extended its services to Petersburg, where it signed contacts with the five-star hotels Europe and Nevsky Palace and a number of joint companies.³²

Large protection companies are in fact privatised segments of the state security and intelligence organs. In Petersburg, for instance, the firm Zashchita was created by the North-Western Anti-Organised Crime Unit and is considered to belong to the MVD, while the protection companies Tornado, Komkon and Northern Palmira are headed by former KGB-FSB officers and are, accordingly, the domain of this ministry. Though the companies are financially and organisationally separated from the state organs they have access to information and operative resources of the latter through personal connections and informal relations. Many directors of private protection companies openly admit the fact of 'mutually beneficial co-operation' and 'friendly ties' as well as financial aid to the public security sector by the private one.³³ The activity of private protection companies is formally supervised by the Department of Licences and Permissions of the MVD.

What do private protection companies do? Being a type of violent entrepreneurial agency, the private protection company provides the standard set of 'roof' services to other business agents and 'solves' their 'questions'—the phrase also frequently used by heads of MVD and KGB-backed companies even in published interviews. These are protection, contract enforcement, dispute settlement, debt recovery, information gathering, and sometimes organisational consultancy. For instance, in 1992 the protection enterprise Komkon successfully solved the question of a large debt recovery for the Petersburg branch of Sberbank Rossii, the biggest state commercial bank, and subsequently became its permanent enforcement partner.³⁴ The work in this field implies competition as well as co-operation with illegal enforcement partners, i.e. criminal structures. According to its director, Alex had a dispute with a Petersburg criminal group over a 'well-known company'. 'On the second day after we settled there they tried to intimidate us by phone. Then [we] set up a meeting (*strelka*). In

the end [they] threw a grenade into our office. But things worked out well in the end, we did not abandon the object'.³⁵

Since criminal groups were first to discover this entrepreneurial niche, they also laid down the basic rules and terms of the game, which every newcomer in the field had to take into account. As the head of the Department of Licences and Permissions of the Interior Ministry, Yu. Buryak, noted, 'the business of private protection is impossible without relations with criminal structures. I do not mind *strelki*, they were and they will be. But I am strongly against what is called *razborki*' (violent showdowns).³⁶ Because of the similarity of functions private protection companies in many ways resemble their criminal rivals. At the same time, the ex-KGB and MVD structures assert their difference in that their service is more reliable, predictable, and has a more competitive price. The charge for debt recovery varies between 15% and 40% of the debt.³⁷ The claim of a better quality of service rests on the professional experience of the personnel of large private protection companies who are able to use not only violence but also informational and analytical methods acquired during their career in state service. The major emphasis is said to lie not on direct physical protection or intimidation but on the preventive neutralisation of potential conflicts and threats. The vice-chairman of the security service of the Association of Russian Banks, A. Krylov, described the methods of legal enforcement partners thus: 'To recover the debt one does not need to resort to violent means—it is sufficient just to demonstrate that you have information that compromises the debtor and the channels for its dissemination'.³⁸

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

Violent entrepreneurship and the state

Economic historians and sociologists have studied the use of violence and the role of states in the development of capitalism.³⁹ Against the background of this knowledge Russia's present experience becomes much less exceptional. Historically, before markets started to grow, territorial monopolies of force had been established as a result of continuous warfare. Max Weber's classic definition regards the state as the territorial monopoly of legitimate violence.⁴⁰ Norbert Elias used this conception in his study of state formation in western Europe, demonstrating the centrality of internal pacification, i.e. the removal of violence from everyday life, for the development of

peaceful economic activity of civil society.⁴¹ The monopoly of force together with the fiscal monopoly made possible the central function of the state: the enforcement of universal law and order and the exercise of justice. Exploring the economic side of the use of organised violence, the economic historian Frederick Lane identified early-modern governments with violence-using and violence-controlling enterprises which produced and sold a specific service—protection. He described the political economy of force which assisted the accumulation of capital during the pre-industrial phase. If the governments that commanded organised force received tribute for the protection they sold to the subjects of economy and trade, the latter could also gain from what appeared a mere protection racket: they received protection rent. The customers, for example, Venetian merchants, earned protection rent because of the higher efficiency of their protector compared with that of their competitors: all merchants had to pay tribute to avoid damage, but those who paid less for firm protection in a dangerous business environment earned protection rent as a result of more competitive prices reflecting lower costs. Thus the institutionalised protection rackets that offered lower prices to clients grew at the expense of their rivals. Lane's major point is that 'during the Middle Ages and early modern times protection rents were a major source of fortunes made in trade. They were a more important source of profits than superiority in industrial techniques or industrial organisation'.⁴²

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

In these circumstances the struggle against organised crime cannot radically change the situation. Would it not be more appropriate to talk about the reconstruction of the state, a process that is much more broad and complex than police measures against organised crime? All measures—political, economic, cultural, juridical and so on—that work towards the restoration of the monopoly of violence and the establishment of firm public control over it contribute to the reconstruction of the state. Legal protection companies that force purely criminal groups out of the market are also part of the process. The development of the business of private protection, however, is ambivalent. On the one hand, the privatised segments of the state coercive apparatus display a dangerous tendency towards autonomisation; they have an intrinsic interest

in becoming autonomous market actors. Moreover, since the demand for their services depends upon the general level of business risks, the agents of private protection would harbour a hidden interest in preserving the criminal sector as the source of risk rather than eliminating it. On the other hand, the state origin of many of the cadres of the private protection companies, and their close relations with the state organs, carry a possibility of a new centralisation and establishment of close control over the agencies of organised violence, with a parallel transition to their centralised budgetary financing. The logic of the economic market has its positive aspect as well, expressed in a specific political economy of force: intensive violence is economically inefficient. Legal as well as criminal entrepreneurs of violence are compelled to take into account economic limitations of their action as well as the developing business culture. Thus, in theory, the reconstruction of the state and the pacification of society should work itself out independently of any conscious intentional project of those in power. Or, alternatively, incentives for the strengthening of the state will be reflected in the consciousness of businessmen and politicians—contrary to the earlier widespread beliefs that the strong state and the economic market are mutually exclusive.

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

² On the genesis of regular racket in Moscow see V. Karyshev, *Zapiski 'banditskogo advokata': zakulisnaya zhizn' bratvy glazami 'zashchitnika mafii'* (Moscow, Tsentrpoligraf, 1988), pp. 30–40; also M. Kleimenov & O. Dmitriev, 'Reket v Sibiri', *Sotsiologicheskie issledovaniya*, 1995, 3, pp. 115–121.

³ S. Dyakov & A. Dolgova (eds), *Organizovannaya prestupnost'* (Moscow, Yuridicheskaya literatura, 1989), p. 98

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

⁵ Evidence of this is provided in the dissertation by Federico Varese, *The Emergence of the Russian Mafia: Dispute Settlement and Protection in a New Market Economy*, DPhil thesis. The Faculty of Social Studies, University of Oxford, Oxford, 1996, and F. Varese, 'Is Sicily the Future of Russia? Private Protection and the Rise of the Russian Mafia', *Archives Europeennes de Sociologie*, 35, 1, 1994, pp. 224–258.

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

⁷ D. North, *Institutions, Institutional Changes and Economic Performance* (Cambridge, Cambridge University Press, 1990).

⁸ No comparative calculations of transaction costs have been made so far. A theoretical argument for the economic efficiency of informal rule-enforcers was advanced by Svetozar Pejovic, 'The Transition Process in an Arbitrary State: The Case for the Mafia', *IB Review*, 1, 1, 1997, pp. 18–23.

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

¹⁰ A. Konstantinov & M. Dikselyus, *Banditskaya Rossiya* (Petersburg, Bibliopolis, 1998).

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

- ¹² See, for example, G. Dunn, 'The Major Mafia Gangs in Russia', in P. Williams (ed.), *Russian Organised Crime: A New Threat* (London, Frank Cass, 1997).
- ¹³ For an account of trademarks of the Sicilian mafia see D. Gambetta, *The Sicilian Mafia: The Business of Private Protection* (Cambridge, MA, Harvard University Press, 1993).
- ¹⁴ *Operativnoe prikrytie*, 1997, 2(8), p. 10.
- ¹⁵ *Obshchaya gazeta*, 20–26 August 1998, p. 4.
- ¹⁶ Cited in *Economist*, 1994, 19, pp. 57–58.
- ¹⁷ *Nezavisimaya gazeta*, 21 September 1995.
- ¹⁸ W. Webster *et al.*, *Russian Organised Crime. Global Organised Crime Project* (Washington; Center for Strategic and International Studies, 1997), p. 2.
- ¹⁹ J. Blasi *et al.*, *Kremlin Capitalism: Privatizing the Russian Economy* (Ithaca, Cornell University Press, 1997), p. 116.
- ²⁰ *Ibid.*, p. 119.
- ²¹ *Zashchita i bezopasnost'*, 1998, 2, pp. 4–5.
- ²² Radaev, *Formirovanie novykh rossiiskikh rynkov*, pp. 129, 174, 185.
- ²³ *Novaya gazeta*, 13–19 July 1998, p. 3.
- ²⁴ *Operativnoe prikrytie*, 1997, 3(9), p. 36.
- ²⁵ *Bezopasnost' lichnosti i biznesa. Spravochnik' 98* (St Petersburg, Agentstvo AT, 1998), p. 4.
- ²⁶ *Ekspert*, 1996, 2, p. 22.
- ²⁷ *Operativnoe prikrytie*, 1997, 4–5 (October), p. 61.
- ²⁸ *Ekspert*, 1997, 11, p. 40.
- ²⁹ *Operativnoe prikrytie*, 1997, 1(7), pp. 8–9.
- ³⁰ A. Maksimov, *Rossiiskaya prestupnost': kto est' kto* (Moscow, Eksim-press, 1998), pp. 260–266.
- ³¹ O. Kryshchanovskaya, 'Nelegal'nye struktury v Rossii', *Sotsiologicheskie issledovaniya*, 1995, 8, p. 96.
- ³² *Operativnoe prikrytie*, 1997, 1(7), pp. 32–33.
- ³³ *Operativnoe prikrytie*, 1997, 3(9), pp. 34–36.
- ³⁴ *Operativnoe prikrytie*, 1996, 6, p. 9.
- ³⁵ *Operativnoe prikrytie*, 1997, 1(7), pp. 32–33.
- ³⁶ *Operativnoe prikrytie*, 1997, 2(8), p. 33.
- ³⁷ *Ekspert*, 1996, 2, p. 20.
- ³⁸ *Ibid.*
- ³⁹ For example, D. North & R. Thomas, *The Rise of The Western World* (Cambridge, Cambridge University Press, 1973); F. Lane, *Venice and History* (Baltimore, Johns Hopkins University Press, 1966); C. Tilly, 'War Making and State Making as Organised Crime', in P. Evans *et al.* (eds), *Bringing the State Back in* (Cambridge, Cambridge University Press, 1986).
- ⁴⁰ M. Weber, 'Politics as Vocation', in H. Gerth & C. Wright Mills (eds), *From Max Weber: Essays in Sociology* (London, Routledge, 1970), pp. 77–78.
- ⁴¹ N. Elias, *The Civilizing Process. Vol. 1–2. The History of Manners and State Formation and Civilization* (Oxford, Basil Blackwell, 1993).
- ⁴² F. Lane, 'Economic Consequences of Organised Violence', *The Journal of Economic History*, 18, 4, 1958, p. 410.