Supply, Demand, Connections, Legitimacy:

Understanding the Waxing and Waning of the Protection Industry in Russia

by

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Thesis submitted in partial fulfillment of
the requirements for the degree of Master of Arts in the Department of
Slavic and Eurasian Studies in the Graduate School of Duke University

2013
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The literature on organized crime, while increasingly rich, has yet to create a paradigm to predict and explain the waxing and waning of the private protection industry. In the work that follows, I create a general model and identify factors that help predict and explain fluctuations of protection services within organized crime groups. I derive the four points below from analysis of the Russian case, emphasizing the years after the fall of communism and around and after the rise of Putin. I argue that if the following premises are true in a given country, they predict growth, or at least the existence, of illicit private protection:

1. Within a given state, there is demand for private protection (resulting from neglect or inability of the state to provide protection)
2. Organized crime groups have the ability to provide private protection (i.e. supply to match demand)
3. Within the given state, there is continuity of regime or of people in power (which allows the racket to continue operating smoothly)
4. The state will maintain internal legitimacy even with the existence of private protection rackets OR the state has no internal legitimacy and doesn’t have the power to combat groups (weak or failed state)

In the first chapter, I introduce the puzzle of organized crime and the private protection industry. My second chapter highlights scholarly approaches to organized crime and explains the approach and definition I employ in my work. In the third chapter, I explore the history of organized crime in a broad sense throughout the Imperial and the Soviet periods. The fourth chapter focuses on the emergence of the protection industry in the early and mid-1990s, and the fifth chapter is a study of the late 1990s and the disappearance of the private protection industry. The sixth chapter concludes and offers possible topics for further research.
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1 Introduction

The literature on organized crime, while increasingly rich, has yet to create a paradigm to predict and explain the waxing and waning of the private protection industry. Moreover, scholarship has given regime transitions only limited treatment. Historical and sociological sources tend to speak broadly about the emergence of organized crime during transitions, largely citing economic and sociological uncertainty as the causal factor. While not focused on organized crime, but rather on disparate, disorganized crime, Joan Neuberger's book *Hooliganism: Crime, Culture, and Power in St. Petersburg, 1900-1914* is an example of the rare sort of work that seeks to understand the sudden spike in criminal activity and its relationship with regime change. She argues that the crumbling of the fabric of Russian society after the 1905 Revolution, combined with the drastic demographic changes accompanying it, prompted new groups of people to turn progressively toward crime.\(^1\) While this sort of argument is both intuitive and common in the history literature, the precise mechanism creating the change, or the complex process behind the decision on an individual level, is not really explored.

Political scientists are fascinated by regime change, and this fascination will likely continue to grow with the new wave of transitions in the Arab world.

\(^1\) Neuberger argues that hooliganism was a reaction to the massive social and cultural upheaval that was occurring during the 1905-1914 period. She cites rapid urbanization, industrialization, a demographic shift, and the spread of education as major contributions to the mounting instability, in addition to the fervent revolutionaries who were eroding the already weak authority of the regime. The acute self-consciousness and class-consciousness was complicated by the opening of society and the new societal mobility; the classes thus felt the need to clearly define themselves, Neuberger argues, and the hooligans set about doing this though their rebellious, abrasive attitude and behavior. Neuberger, 1993.
Transitional justice is only but a blossoming field, but significant work has already been done on East Europe, Latin America, and South Africa.\textsuperscript{2} Perhaps because of its recent inception as a field of study, or perhaps because of the difficulty in untangling causal ties, no work has been done directly relating regime change to the formation of organized crime groups. The transition is recognized as something useful and important for changes in crime levels, if merely because it presents an exogenous shock, but the way the transition is managed and the way the members of the ancien régime are handled is not discussed in a meaningful way. Work has been done on police reforms in South America and the transition is an integral part in the analysis. The way the regime chooses to reform (or not) the police force has an ostensibly powerful impact on the shape crime and organized crime take.\textsuperscript{2} Still, this does not directly confront the role of former collaborators and members of the ancien régime within positions of power; this literature studies the legacies of these actors instead.

I maintain that not only would an examination of the interrelation of regime change and organized crime group formation be surprising and provocative, it would also yield a more complete understanding of how crime organizations form, when they create protection rackets, and why they choose to operate protection rackets. In the work that follows, I identify factors that, when taken together, help predict and explain the waxing and waning of protection services within organized crime groups. No literature to date has created a framework for predicting the growth or shrinkage of the private protection industry, and I propose the following as a starting point. I

derive the four points below from analysis of the Russian case, emphasizing the years after the fall of communism and those surrounding the rise of Putin. I argue that if the following premises are true in a given country, they predict growth, or at least the existence, of illicit private protection:

1. Within a given state, there is demand for private protection (resulting from neglect or inability of the state to provide protection)

2. Organized crime groups have the ability to provide private protection (i.e. supply to match demand)

3. Within the given state, there is continuity of regime or of people in power (which allows racket to continue operating smoothly)

4. The state will maintain internal legitimacy even with the existence of private protection rackets OR the state has no internal legitimacy and doesn’t have the power to combat groups (weak or failed state)

Despite my intuition that a narrow focus on the transitional state is a catalyst for the emergence and growth of the protection industry, I chose to create a more comprehensive list of premises that explain not only the emergence or growth of the protection industry during or after regime change, but also its evolution more generally within any given state at a given time. There are premises that are more likely to be true during times when there is great turnover of state actors, which explains the perception that times of transition are particularly meaningful and avoids possible fallacious arguments for the exceptionalism of regime transition.

I chose to examine the Russian case because of the extremity of the changes the protection industry experienced in a mere decade. The early post-transition period
saw explosive growth in the number of private protection firms but by 1998, both rackets and legal private agencies were shut down and the industry virtually disappeared. The apparent volatility of the industry, the short time period over which all these changes occurred, and the possibility to observe the two extremes in the protection industry make Russia an especially interesting and valuable case to study.
2 Background: Literature on Organized Crime

2.1 Defining organized crime

In order to discuss organized crime in a meaningful way, we must first have a working definition of organized crime. Scholars have written extensively on this topic alone, and still no clear consensus has been reached; this seems quite natural, as it is difficult to form a static definition of a constantly evolving subject. Given the fluidity of the subject, I pull elements from the work of various scholars and institutions.

The FBI defines organized crime as “any group having some manner of a formalized structure and whose primary objective is to obtain money through illegal activities. Such groups maintain their position through the use of actual or threatened violence, corrupt public officials, graft, or extortion, and generally have a significant impact on the people in their locales, region, or the country as a whole.” This definition is flexible and imprecise; the meaning of “formalized structure” is unclear and the final clause about “significant impact” allows for a great deal of subjectivity. Still, this definition is useful in that it paints organized crime in broad strokes and primes the canvas for nuanced perspectives.

Surprisingly, Russian law does not provide a very clear definition of organized crime. Article 35 of the Criminal Code of The Russian Federation, defines an “организованная группа” as united under a single leadership with the purpose of committing one or several crimes for direct or indirect financial or material benefit. The term organized organizedcrime is a very general one, translated quite simply as an

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“organized group.” The hooligans studied by Neuberger might be understood as a criminal organization under this definition, as they did band together and there were young men who were leader figures. The Russia’s Criminal Code therefore does not help us distinguish between systematized extortion groups and groups of hooligans burglarizing and vandalizing.²

I also refer to the work done by James Finckernauer and Yuri Voronin in their work *The Threat of Russian Organized Crime*, prepared for the U.S. Department of Justice, in which they sketch out some main factors that characterize organized crime in Russia. Generally (i.e. not unique to the Russian case), they define organized crime as a “crime committed by criminal organizations whose existence has continuity over time and across crimes, and use systematic violence and corruption to facilitate their criminal activities. These criminal organizations have varying capacities to inflict economic, physical, psychological, and societal harm.”³ Though they leave the crucial actor, the criminal organization, shrouded in a chilly lexical mist, they at least introduce the notion of systemized violence.

It is easy to claim that organized crime is committed by a criminal organization, as that is quite nearly a tautology, and because the organizations are criminal ones we also expect these organizations to use extra-legal means to attain their goals and to prolong their existence. What then makes a criminal organization? On January 1, 1994, the Bureau for Fighting Organized Crime was established in Poland and began operating. In order to fight organized crime, they needed a clear

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² Perhaps more surprising than this loose definition is the lack of inclusion of extortion or racketeering in the crimes discussed in the Criminal Code.
idea of what organized crime was, ergo they quickly developed eleven characteristics of organized crime:

1. profit or power as main aims of the activity
2. long-term or unlimited time-frame of the activity
3. division of tasks and powers among the members of the criminal group
4. a special hierarchy
5. resort to different criminal methods to make money
6. isolation from the outside world, internal discipline, and internal control of the members of the criminal group
7. perpetration of serious crimes
8. use of violence or other means of intimidation
9. capability of operating internationally
10. money laundering
11. ability to influence the realms of politics, state administration, and law enforcement.

Five of these criteria must be met in order for a group to be classified as an organized crime group under Polish law.4

A narrow definition might become problematic when cases outside the region are considered, and though the eleven criteria themselves might be a bit ambiguous (e.g. what precisely is a “special hierarchy” and how neatly can we separate the “special” from the non-special), they were still informed by the Polish experience. Thus, I appeal to literature on the definition more broadly.5 Charles Tilly implicitly defines organized crime in his work “War Making and State Making as Organized Crime.” For Tilly, the creation of states resembles organized crime in that the state

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5 I use academic work rooted in different cultures. This is valid, as these works were created with the goal of developing a generalized model, meant to be applied and tested to cultures outside that from which it was formed.
functions much like a protection racket. Organized crime then, “at its smoothest,” is a protection racket. The protection racket understanding of organized crime, however, might eliminate other very powerful criminal groups that specialize in drug or human trafficking rather than protection, and we thus seek to expand this definition.

Federico Varese, a specialist in the Russian case, provides us with a useful tool to distinguish between different sorts of organized crime groups in his article “What is organized crime.” He suggests that a distinction be made between “mafia” organizations and other criminal organizations. He analyzes 115 definitions of organized crime and sifts through prominent theories and definitions with the goal of, if not filtering all this information down to one general but clear definition of organized crime, at least charting trajectories of the evolution of the definition. Varese shows how nuanced a definition must be if it hopes to capture its subject faithfully, and he opts for a simpler categorization of crime organizations into organized crime groups and mafia groups. He maintains that a mafia would specialize in protection first and foremost, while other groups would deal mostly in other illicit goods and services. The distinction made by Varese between mafias and other organized crime groups, while perhaps not useful in all discussions about organized crime, does provide us a way to concisely distinguish between the two fundamentally different sorts of crime groups we observe in Russia 1991-1998 and post-1998. Varese does not include the term monopoly as such, but states instead that these groups attempt to

6 A racketeer here is understood as someone who both produces and protects from danger. The racketeer makes a threat and offers to protect against his own threat at a cost. Tilly, 1985, pp. 169-172.
“regulate and control...unlawfully.” It is this attempt to control or this desire to control, rather than actual control, that is important. Moreover, Varese softly sneaks away from direct inclusion of a hierarchical structure criterion, as this tends to vary across time, space, and the type of illicit good produced. Additionally, in the case of the mafia, he challenges Schelling's claim that the protection produced by the mafia is strictly extortion, which will also prove important in the discussion below.

2.2 Scholarly approaches to organized crime

Within the literature on organized crime, there are two main schools of thought regarding the emergence of organized crime groups: state failure and state capture. Most of the work on organized crime can be roughly grouped into one of these two categories, particularly if the author seeks to understand the way in which the organized crime group interacts with the state. In the state failure approach, the type of organized crime that develops is often protection-focused and a demand arises for private protection because the state fails to provide its citizens with protection of property or of person. Stergios Skaperdas argues in his article, “The Political Economy of Organized Crime: Providing Protection When the State Does Not,” that organized crime results from a power vacuum and that organizations function like a primitive state.

Diego Gambetta's book *The Sicilian Mafia: The Business of Private Protection* is one of the most prominent works in the state failure tradition. In it, he examines the emergence of the mafia in Southern Italy and describes its structure and

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7 Varese, 2010: 14
8 Schelling, 1971.
function. Gambetta illustrates that while some clients of the mafia are victims, many are also willing customers. Mutual low-trust expectations generate demand from both the seller and the buyer, and thus both parties might willingly purchase protection. The mafia therefore has an interest in maintaining distrust in the market, as this will allow the firm to provide a service for which there is genuine demand. This is not to say, however, that extortion is not also prevalent. Gambetta's work influenced and informed Varese's approach to the Russian Mafia, notably his book *The Russian Mafia: Private Protection in a New Market Economy*, which finds that Russia's inability to safely assure its citizens that it could protect their property led to a demand for private protection.

Two other notable works using this approach include Tim Frye's article “Private Protection in Russia and Poland” and the article “State Failure, Economic Failure, and Predatory Organized Crime: A Comparative Analysis” by Hung-En Sung. In Frye's work, private protection agencies (PPOs) emerge as a result of both weak state institutions and high levels of regulation. The first suggestion, which is examined analytically in Sung's work, echoes Varese's analysis in *The Russian Mafia* of the demand for protection after the transition to the market economy. Similarly, Gambetta had attributed a great deal of importance to Italy's transition from feudalism and the need for protection of multitudes of new property. The high levels of regulation, also mentioned in Varese's book, tend to push businesses into the informal economy because they will have larger profit margins.

In his article, Sung attempts to create a more general account of the emergence of organized crime, an account not constrained by anecdotal evidence or
data from specific case studies. He tests two hypotheses using data collected from 59 countries: state failure hypothesis, which claims that the failure to deliver political goods leads to the emergence of organized crime, and the economic failure hypothesis, which states that poor economic outcomes lead to the growth of organized crime. Sung included high unemployment, a low standard of living, and a reliance on an underground economy in his definition of poor economic outcomes. Political goods in this context include security, political freedoms, civil rights, criminal and civil justice, and stability. If the state fails to produce these goods, the predicted result is predatory organized crime and extortion. Sung does not take time horizons into account here, unlike the previous two scholars, but simply states that “state failure fosters predatory organized crime by raising the general level of violence and fear of violence, which in turn raises the popular demand for security.”

Sung's analysis of the data shows that both hypotheses are relevant, though not equally. Sung concludes that political factors were more significant than economic factors in the causation of organized crime, and furthermore, the sample shows that within the political factors, a credible judicial system seems to be a more important deterrent of organized crime than effective political processes that deter organized crime. The stability of judiciary and legal institutions have a negative correlation with organized crime, but we should be careful not to fall victim to the fallacy of denying the antecedent. The economic failure hypothesis also held, as black market activities and GDP per capita were both significantly correlated.

In the state capture school of thought, Enrique Desmond Arias challenges the
state failure theory in his article “The Dynamics of Criminal Governance: Networks and Social Order in Rio de Janeiro.” Arias begins by juxtaposing the state failure description of organized crime with his conception of network interactions between underground actors and state actors. He argues that high levels of violence do not arise from state failure; rather, they are the result of fluctuations within and the interworking of these complex networks. A focus solely on institutional failure ignores the “active political constellations that promote violence and resist meaningful reforms,” he argues. Criminals gain state power and social capital through connections with police, politicians, and civic leaders, and this allows them to continue their criminal operations. A new form of clientelism arises: politicians gain votes and drug traffickers gain benefits from distributing portions of patronage benefits. Though he does not go as far as to say that a symbiotic relationship between state and criminal actors exists, it is clear that both criminals and state actors have incentives to trade services and to connect with each other unofficially. Arias emphasizes that violence is persistent in Rio not because of state failure, but because state power is actively used in the interest of criminals, and because the aforementioned networks are poorly defined and ever-changing.

In the article “The Monopoly of Violence: Evidence from Colombia,” Acemoglu, Robinson, and Santos analyze the symbiotic relationship between paramilitaries and politicians, and argue that politicians have reduced incentives to eliminate paramilitaries when these groups can help them win votes and elections. Acemoglu et al focus specifically on paramilitaries and their efforts to amass votes for politicians, thus reducing the incentives of elected officials to eliminate or disrupt
the functions of the paramilitary group. They challenge the assumption that as a state develops, it consolidates power and forms a monopoly on violence. In their article, they show how a state might actually prefer not to have a monopoly on violence, and they argue that a state can develop without moving towards forming this monopoly. A state might not develop a monopoly on violence if the expected benefit of eliminating the armed groups is not worth the cost of fighting them.

Though some proponents of the state capture model reject the state failure theory, I do not see the two as mutually exclusive or inherently contradictory. It seems to be the case that Russia in particular exhibits elements of both state failure and state capture. The two can lead to different types of crime groups (mafias resulting from the state failure, while both mafias and organized crime groups might operate through state capture) or the two can be temporally distinct (state failure explaining their emergence, state failure explaining their survival after emergence). I consequently employ both theories to better understand the nature and evolution of organized crime in Russia.

2.3 Organized crime activities

Organized crime activities, as listed in Title 18 of the United States Code, Section 1961 (1), can include any of the following:

- Bribery
- Sports Bribery
- Counterfeiting
- Embezzlement
- Mail Fraud
- Wire Fraud
- Money Laundering
- Obstruction of Justice
- Murder for Hire
- Drug Trafficking
- Prostitution
- Sexual Exploitation of Children
- Alien Smuggling
• Trafficking in Counterfeit Goods
• Theft from Shipment
• Transportation of Stolen Property
• Extortion

Given that organized crime groups operate in so many different industries, the choice to focus on only protection might seem limiting. I suggest, however, that systematic extortion is unique activity requiring special explanation. Max Weber’s conceptualization of state legitimacy highlights the puzzle and uniqueness of protection rackets.

In his essay *Politics as a Vocation*, Max Weber argues that the defining characteristic of a state is its monopoly on violence. In order for a state to maintain its legitimacy, this monopoly, or at the very least the citizens’ perception of it, must be maintained.\(^1\) Though any of the aforementioned activities might promote violence and challenge the state’s monopoly on violence, none does so as directly as repeated and systematic extortion. Furthermore, criminal organizations, while always illegal, rarely provide their consumers with goods or services that are substitutes to those the state typically provides; private protection, however, is a substitute for state provided protection, one of the critical provisions the state provides to legitimize itself. The protection industry is thus different from any other criminal activity, as it creates what is essentially a state within a state, existing outside the formal sector.

\(^1\) Weber, 1946.
3 The Russian Case: Before the 1990s

3.1 Historical review of organized crime before the 1917 revolutions

Russian organized crime can be traced back to the thieves' law and the tradition of thieves' slang in the fifteenth century. Though it had conquered the numerous territories that were to be consolidated into the Russian Empire, the state had by no means a monopoly on violence. At its largest in 1866, the Empire spanned thirteen time zones, encompassing roughly 16% of the earth's land area,¹ and it is thus not altogether surprising that the state could not effectively eradicate crime groups roaming the countryside. The October Revolution of 1917 is widely cited as an integral part in the formation of current organized crime groups, but little work has been done on how or why criminal organization emerged during this period. I consider it briefly below and through this historical examination of crime in the Imperial and Soviet periods, create a rough outline of the framework I further develop in the following chapters.

Because so few people owned private property (~80% of the population was enserfed until 1861), stealing was often regarded as a minor evil necessary for survival. Valeriĭ Chalidze argues this in his work Criminal Russia: A Study of Crime in the Soviet Union, saying, “among the Russian peasantry before the Revolution, occasional as opposed to habitual theft was regarded as a civil injury rather than a crime.”² Peasants frequently engaged in a variety of illegal activities, notably cutting wood from private forests, allowing cattle to graze on private property, fishing in

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¹ Thompson, 2009.
private lakes or streams, and poaching and gathering on private property.\(^3\) Sergey Maximov notes the complicated general attitude toward private property in the nineteenth century. He states that in popular opinion, “anything to which labor has not been applied and which has therefore not acquired capital can be stolen without sin.”\(^4\) Thus private property was poorly defined and even more poorly protected. V. V. Tenishchev describes how peasants actually supported the practice of sharp trading, and further, “they will often say that it is the victim's own fault for not taking sufficient care.”\(^5\) It is therefore reasonable to conclude that Russia had a demand for private protection (for the landowners and for interactions between peasants), but surprisingly, unlike in Gambetta's Italy, no organized protection rackets formed on a large scale within Russia before 1991.

The criminal groups found in Russia in the 18\(^{th}\) and 19\(^{th}\) centuries actually seem to evolve from the “roving bandits” to the “stationary bandits” described by Mancur Olson in his book *Power and Prosperity*. Olson describes the roving bandit as one who has incentive to take all that he can from his victims and contrasts this with a stationary bandit, who actually will find it most profitable to take only a portion of the possible spoils. The stationary bandit will actually be motivated to encourage economic success, since this will provide him with more capital to seize. Stationary bandits will also engage in counter-intuitive activities, such as providing public goods.\(^6\) The stationary bandit does not provide public goods out of a sense of altruism, generally; he does so because it actually is useful for him and helps him

\(^{3}\) Ibid. 4-6.  
\(^{4}\) Ibid.  
\(^{5}\) Ibid.  
\(^{6}\) Olson, 2000: Chapters 1 and 2.
harvest more economic benefits in the future.\textsuperscript{7} Olson's argument is meant to describe the formation of states, but there is good evidence to support the argument that criminals in Russia had roles similar to roving bandits but gradually shared more characteristics with stationary bandits. Chalidze describes groups of criminals and brigands who stole from the rich and often helped the poor. These brigands did not frequently protect the property of the poor, partly because the poor had little property to protect. They instead focused their efforts on gathering spoils from the few wealthy landowners in a given area.

There was no incentive for the groups of bandits to form protection rackets for the rich because the masses of peasants were more powerful, and catering to them rather than to the wealthy landowners allowed the brigands to maximize their profits. Brigands did not necessarily provide public goods but they did frequently foster positive, working relationships with villages and peasants. Chalidze claims that the criminal groups were given a sense of power, or a sense of legitimacy, by helping the poor, thus creating ostensibly loyal and dependent subjects. Additionally, the criminals needed the support of the peasants in order to continue their operations. If the authorities were searching for a particular group or a particular criminal, the fugitive or brigand required support from a village: they would need food and shelter in addition to compliance in secrecy. The criminals could achieve compliance, receive

\textsuperscript{7} Time horizons are important here, as Olson notes, because if the stationary bandit does not foresee his control lasting far into the future (i.e. if his time horizons are relatively short), he will not have much incentive to invest in public goods that yield benefits only far in the future. Generally, however, the stationary bandit has a time horizon that is significantly longer than the roving bandit, ergo the differences in behavior. The same is true of brigands operating in a given province or village: if they anticipate being in the area long enough to if they expect to need the help of people in that area in the future, the brigand will have more of an incentive to provide public goods, or at least not to provide public bads. Olson, 2000.
food, and shelter through violence or threat of violence, but these means are costly. In order for a threat to be credible, the group needs to have a reputation, and this reputation in turn depends on previous use of violence. There is also the problem of information: if the brigand's reputation does not reach those it hopes to threaten before the brigand does, even if they have a reputation established in many places, their reputation will not help them create a credible threat; they will be forced to use violence rather than merely threatening it. Because violence is costly, not all groups will be able to use this method.

Sometimes brigands opted for violence, but they also found that offering the peasants portions of their spoils was an inexpensive way to endear them to the brigand. In some cases, the peasants therefore had good (or at least not bad) relations with criminals and this arguably slowed any possible development of civic culture in Russia. Causal arrows are difficult to orient in this case, and there instead seems to be a positive feedback loop: the crime groups emerged because of the weak civic culture, and their existence further weakened civic culture. A lack of civic culture creates considerable ambiguity around the law. If the law is not rigidly observed, certain criminal activity is effectively decriminalized and more readily accepted by the public; ergo, resistance by the public to the emergence of criminal groups is lessened.

The nebulous character of the law in Russia had profound impacts on the

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8 Chalidze, 1977. 7-8.  
9 In their book The Civic Culture, Gabriel Almond and Sidney Verba describe civic culture as a political culture in which citizens accept the authority of the state and feel compelled to complete their civic duties (e.g. voting). Civic culture is often accompanied by civic cooperation and trust, and Russia's low levels of trust as understood through Gambetta fit well with the conception of Russia having no or a poorly developed civic culture. Almond, Gabriel A., and Sidney Verba. 1963.
practice of law, which perhaps ironically, was itself enveloped in hazy, extralegal activity. In her article ""Shysters" or Public Servants? Uncertified Lawyers and Legal Aid for the Poor in Late Imperial Russia," Joan Neuberger reevaluates the role of uncertified lawyers in Russia after the 1864 judicial reforms and before the October Revolution. She argues for a fair evaluation of these legal actors operating in an illegal way in the legal realm, and presents evidence supporting her claim that the uncertified lawyers provided a much-needed service and provided it in an effective manner. There was a very high demand for legal services, and the “small number of universities granting law degrees amid the large and far-flung population of the empire, kept the number of certified or sworn attorneys very low.”

The judicial reforms of 1864 sought to expand legal culture in Russia, popularizing respect for the law and knowledge of it. There was not a clear mechanism by which the reformers planned to spread legal culture, and Neuberger claims that the reformers actually thwarted the achievement of their goals through some pragmatic solutions: “...the reformers expected the court to be accessible enough to incorporate informal practices while allowing people to develop respect for the justice and the court and a rudimentary understanding of how some kind of law functioned.” She goes on to say that this ambivalence in official beliefs about the simplicity of popular legal needs contributed to the success of the uncertified lawyers and allowed both for an increase in their demand and an increase in their ability to meet this demand.

Neuberger focuses primarily on the legitimacy of the services provided by these uncertified lawyers and she discusses the incentives of the certified lawyers to

11 Ibid. 297.
misrepresent the uncertified. Though not the focus of her article, she also highlights the bifurcation of the legal culture. Specifically, the “judicial system itself bred popular ambivalence for formal law and the new judicial institutions,” and Neuberger cites the institutional ambivalence as the source of the popular ambivalence. The attempts to imbue the masses with a sense of legal culture confronted reformers with the problem of being unable to provide sufficient institutions proportional to the new increasingly legally-minded masses. They thus diluted the legal culture by permitting illegal activity within the legal realm, thereby creating the odd dynamic of a more developed legal culture and a less developed civic culture. Moreover, the relative legitimacy of the shadow legal world makes it even more difficult to cleanly separate illicit activities from lawful ones.

There were therefore two shadow worlds in Russia before the October Revolution: the world of those who operated entirely outside the law as criminals (e.g. brigands of thieves) and those who operated illegally within the legal, official sphere (the over-world, as it is often called). There also existed actors in the over-world who had illegal practices but were not characterized first and foremost by these. These people were part of the ever-growing bureaucracy and their illegal activity consisted mostly of offering or taking bribes. Bribery and corruption were considered strategic means useful for advancement or sometimes even necessary for daily operations in the workplace, and such common violation of the law further blurs distinctions between criminals and law-abiding citizens.13

13 For more on bribery and corruption in Imperial Russia, see: Raeff, Marc. Understanding Imperial Russia: State and Society in the Old Regime. New York: Columbia UP, 1984.
In addition to distinctions between criminals of the underworld and criminals of the over-world, there is a difference between civil and political criminals. The oppressive Tsarist regime did not tolerate dissent and discussion of its policies. There was no room for truly democratic procedures even after 1905, let alone before it; law was issued by decree from the tsar and he was the seat of all power. Political criminals were not always prosecuted in the same zealous way, as Jonathan Daly notes in his article “Political Crime in Late Imperial Russia,” but the tsar still prosecuted those who opposed him. Daly shows that the definition of “political criminal” was a dynamic one throughout Europe in the eighteenth and nineteenth centuries, but the tsarist regime did not hesitate to punish those it considered political criminals. Because many of the citizens sympathized with the political criminals, this type of crime was almost revered rather than condemned, again discounting the authority of the law.

Russia's complex spectrum of criminal behavior created ambiguity around and ambivalence for the law in popular opinion. The illicit activities of political criminals and some brigands were more easily condoned by the general public, and this made it difficult to respect the law categorically, simply because it was the law. Because civic culture itself was not robust, ideological entry barriers or costs of entry were relatively low for pre-Revolution Russia; that is to say, if the authority of the state is considered questionable, it is easier for groups to form that plan to act in opposition to the state than if the state's authority was well established and accepted.

14 Daly, 2002: 62-100.
3.2 Organized crime and the October Revolution

1918 saw a new emergence of organized criminal groups. World War I and Russia's own civil war brought many villages to their knees economically, and preexisting brigands and organized crime groups took this as an opportunity to recruit new members. Gangs could find members among the peasant population, who, despite the increased social mobility offered by Russia's industrialization, found themselves without food or work. Additionally, the general amnesty granted by the Provisional Government had freed thousands of criminals, who were now looking for an occupation. As is often the case, soldiers from the war (mostly deserters, in this case) were easy targets for recruitment: war veterans or deserters had a comparative advantage in violence. The increase in population of these groups combined with the decrease in viable jobs for them made their transition to criminality relatively easy.

The brigands from the previous sections began to consolidate or reform at the turn of the century, and though they still operated primarily in the expansive Russian countryside, they now also had a presence in Moscow and St. Petersburg. The criminals organized in the form of gangs, whose primary purpose was not to sell drugs, humans, or private protection; these groups instead pillaged and plundered. Quite clearly the Bolsheviks would be obligated to condemn the behavior of these gangs, as they were not a constructive force in society. Surprisingly, perhaps, the relationship between the Bolsheviks and the various gangs was far more complicated.

than categorical opposition and their treatment of gangs can actually can be broken down into more fine-grained data.

During the Civil War, the Bolsheviks opposed some gangs and supported others; the independent variable was simply whether or not the gang supported or opposed the Bolsheviks. Not all gangs had an ideological component, and even those that had one did not necessarily remain loyal. The gang of Batka “Father” Makhno, for example, was notorious for fighting sometimes with the Reds, sometimes with the Whites, and sometimes fighting both independently. Even the gangs with an ideological character were not first and foremost ideological; rather, they had some political preferences that were informed by an informal contract with one side, or by perceptions of who would likely win the Civil War.

After the Civil War, however, the Bolsheviks made very serious efforts to eliminate these crime groups. Yakov Gilinskiy and Yakov Kostjukovsky argue in their article “From Thievish Artel to Criminal Corporation: The History of Organised Crime in Russia” that the Soviet authorities dealt with gangsterism after the Civil War primarily because it threatened their own power; it was not necessarily the ideological dedication to Marx that moved them to purge the groups. The groups were threatening the peaceful formation of the new society, and the Bolsheviks dealt with the gangs mostly by “wiping them out” at the scene of the crime or at their own headquarters. They argue that these measures made political gangsterism obsolete by

16 Gilinskiy, Yakov, and Yakov Kostjukovsky. 2004: 188.
17 Ibid. 189.
18 It is reasonable to assume that the gangs acted more like interest groups than political parties in a coalition because the crimes cared first about the endurance of their own crime business. This depended on who was in power, as obviously the groups, though existing outside of the legal framework of the state, were still operating within the state.
1927, and this in turn transformed the criminal world and facilitated the emergence of
the thieves-in-law on a national and not regional scale.19

3.3 Organized crime during the Soviet regime

The 1930s in the Soviet Union witnessed the development of organized crime on a national level for the first time in the history of the region. Throughout the 1930s and the 1940s, as the gulags began to fill and criminal networks began to fuse as Stalin's power consolidated, thieves-in-law, vory-v-zakone, began to form extensive networks. The gulags became a significant place of contact, and as prisoners moved around the country from gulag to gulag, the previously isolated groups of bandits became part of one national network structure.20 By the 1950s, Soviet authorities mostly disassembled the vory society but the shadows of the old links remained and the process of nationalizing crime was still fresh.21

The shadow economy began to grow considerably throughout the 1950s and the 1970s, and it was then that the practice of collaborating closely with government officials began. Criminals organized and traded scarce goods (many things were rationed in the Soviet Union and access was restricted to goods ranging from sugar to cars such that even if people could afford to purchase a car, they did not have the opportunity), and cooperated with high level party officials to achieve their entrepreneurial goals. It was then that we first see the emergence of the “roof,” or krysha, in Russia. The krysha was a protective “roof” that allowed illegal activities to

19 Gilinskiy, Yakov, and Yakov Kostjukovsky, 2004: 190-191.
20 Varese, 2005: 165.
persist safely within the state; it was the first significant form of private protection in the region. The *krysha* brought together the *vory*, the party officials, the government and its institutions, the violent entrepreneurs, and traditional criminals. It created networks and strong links between the underworld and the upperworld, between the criminals and those who were supposed to eradicate them. I argue that this period is crucial to the emergence of organized crime in Russia currently. Even if individual actors from the 1950s were no longer in power after the dissolution of the Soviet Union, party members were raised in this system and were educated politically in this tradition.

As Russia began to liberalize and as society began to open slightly, a new generation of criminals emerged: the sportsmen or “bandits.” Though this group arguably did not show their power or factor prominently in the criminal world until after the fall of the USSR, it is important to note that their activities actually did begin in the pre-*perestroika* period (that is, they formed connections with officials before the USSR dissolved). The *vory* and the sportsmen began to form systematic links with each other (though after the transition, most of these would give way to violent competition for larger market share) and these linkages helped criminals expand their networks. Even if the network ultimately crumbled, it provided them with valuable information about the actors with whom they were competing.

Crime and organized crime groups thus existed even in the Soviet period (though this was not formally acknowledged) but only in late 1980s did extortion and protection become a source of revenue for organized crime groups. Entrepreneurship

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22 Ibid. 190-196.
23 Ibid. 195-198.
was not present in the Soviet Union until the 1986 Law on Individual Labor Activity and the 1988 Law on Cooperatives, which allowed for individuals to own their own small businesses and to employ themselves and others outside the state. In order for crime groups to have businesses and property to protect, individuals must own businesses and have assets (i.e. there must be some degree of privatization). Extortion followed business development: city markets were the first place for the emergence of entrepreneurial activity and thus the first place for the emergence of brigands and protection rackets. In St. Petersburg and Moscow, newly opened commercial enterprises (notably shops and cafes) would receive visits from racketeers. The ideal entrepreneurial victims were small business with fast cash turnover, low investment requirements, and relatively simple technology, as these proved to be the most lucrative for racketeers. Already, the state was setting a precedent of neglecting to provide its citizens with the protection they needed to run their businesses smoothly. As Volkov explains, “the peculiarity of late Soviet business conditions was that the victims of the protection rackets were legitimate businessmen theoretically entitled to state protection but rarely provided with it in practice.” Soviet dogma had created such negative sentiment towards businesspeople that even the state lacked motivation to protect young businesses. Thus the Soviet Union entered the 1990s with a fledgling, ill-protected, legal business sector being gradually subjugated to the criminal business sector.

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24 There was therefore no real opportunity for protection to emerge between the period after NEP was replaced with Five Year Plans in 1928 and when Gorbachev reintroduced limited capitalism.
4 Regime Transition and Organized Crime

4.1. General background on crime in the 1990’s

Vladimir Safanov gathers data in his work Organizovannoe vymogatel’stvo: Ugolovno-pravovoi i kriminologicheskii analiz and shows that before 1988, extortion was not considered a widespread crime. As the Soviet Union began to crumble economically and became increasingly open to liberal capitalist reforms, however, extortion began to become a source of revenue for crime groups and corrupt government officials. In 1989, the number of extortion cases in Russia increased threefold. After the transition, not surprisingly, protection became a prominent industry and Safanov asserts that organized extortion reached up to 70% latency in some parts of Russia in the mid-1990s. The emergence not just of extortion but of repeated extortion and repeated interaction was coupled with an explosion of crime more generally, as noted by the MVD’s statistics regarding intense growth in crime in Russia 1989-1992.

Throughout the early and mid-1990s, organized crime and the protection industry specifically enjoyed a high rate of growth and pervasiveness. Police and government organizations did little to thwart criminal activity during the Yeltsin era; criminal groups were not in fact constrained by the state, but rather by each other. The high degree of competition, which resulted in the violent mafia wars of from 1992-1997, eventually led to the elimination of many organizations and the consolidation of others in the late 1990s.¹

As Vadim Volkov points out in his book Violent Entrepreneurs: The Use of

Force in the Making of Russian Capitalism, the protection industry largely disappeared from Russia’s largest cities after 1998, and their work was thereafter carried out mostly by the state. Smaller cities (i.e. not Moscow or St. Petersburg), might still see significant influence from organized crime groups in the protection industry, but for the most part, organized crime groups are no longer the mafias defined by Varese and are instead focusing on other sources of revenue.

Organized crime in Russian thus features both organized crime groups as Varese defines them, but throughout the early and mid-1990s it also prominently features the mafia sort of crime group (a mafia group being the type that provides protection in addition to other goods and services). The protection rackets in Russia do not purely extort their client, however, as Varese shows in his book The Russian Mafia: Private Protection in a New Market Economy. This finding is important because it suggests investigation not just of supply-side economics of organized crime, but also the demand for the protection industry. Below I examine the state failure model and the demand for protection as an explanatory factor in the emergence of rent-seeking crime groups in the 1990’s in Russia.

4.2 State failure and the demand for protection

Several scholars, notably Varese and Volkov, have cited the inability of the state to provide sufficient protection as a reason for the emergence of organized crime groups specializing in private protection. In order to better understand why a business owner would agree to “buy” protection, we must first study the judicial system and legal protection options in more detail; we are thus examining the substitute for the
racket, so to speak, and getting a better understanding of the costs a consumer would incur. It is worth keeping in mind, of course, that these transactions are not the same as shopping for car insurance; even as we discuss the benefits of paying for a technically illegal *krysha*, we must recall that these relationships are often started coercively. Still, we can cite buying factors for Russian business owners, or more precisely, reasons why a substitute to government protection might be sought. Critical components in the Russian case include the overly intricate and complex taxation system, the corrupt, ineffective, and inefficient judicial system, and the general obstacle posed by the state bureaucracy. To understand the demand for private protection, I first identify the “consumer” and then illustrate in more detail why entrepreneurs would be interested in purchasing protection.

As a result of privatization and the new capitalistic openness, the citizens who were economically active began setting up small enterprises called *kooperativy*, which produced and traded consumer goods. These new businesses would prove to be an important customer segment for rent seeking organized crime groups throughout the 1990’s. The early 1990’s witnessed huge growth in cooperative shops and cafes, kiosks, and the entrepreneurial explosion was so significant and the lack of reliable protection so costly that the corresponding growth in brigades couldn’t even meet the increase in demand.²

The environment in which these new business owners existed was characterized by disorder and confusion, due in large part to the chaotic legal situation in the early and mid-1990s. Laws and presidential decrees contradicted each

other; institutions were legally given overlapping jurisdictions; different offices could register the same private property (thus easily permitting consumer fraud); the tax system was not a carefully planned code, but was instead determined by presidential decree. In fact, Russia did not even have a tax code until January of 1999 and thus throughout the 1990s, the taxation system was unorganized and riddled with fraud and corruption. Morozov notes in his article “Tax Administration in Russia” that fines and penalties for tax evasion were severe, from 10 to 500 percent of the hidden amount, and that many new taxes were retroactive, further complicating the system and making tax evasion easily accidental. Local governments could levy up to eighteen local taxes, but many regions (notably Yakutia) established more than eighteen. Morozov even suggests that if taxes were paid in full, as according to the decrees issued, the revenues would actually interfere with the efficient allocation of resources. Perhaps more importantly, tax authorities had incentives to artificially inflate fines to pad their bonuses, making legal authorities dangerous for entrepreneurs. The disordered tax system, arbitrary and severe punishments, and general high rates of taxation made entrepreneurs’ property very vulnerable to legal seizure.

Not only did entrepreneurs face dangers posed by unsystematic taxation, they were not well protected by their own governmental agencies or judicial system. The courts were very inefficient and ineffective: even if a court decision was reached, it was often difficult to put into effect. This difficulty stems from two sources: the general weakness of the courts and the loopholes in the existing legal framework.

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After a court had reached a verdict and determined that an organization owes money, the court had bailiffs to help enforce their decision. The court did not have the ability or responsibility, however, to search for the offender if the debtor could not be found at the registered address. Moreover, both companies and individuals could easily “siphon off their assets…in anticipation of juridical action,” leaving the wronged party with little to even try to claim in court.\(^5\)

In addition to the vulnerability created by the unpredictable tax system and the lack of retroactive justice provided by the courts, business owners in Russia received no protection from traditional security and protection institutions. Current studies of organized crime and the transition have not given enough attention to the fact that the state was intentionally trying to decentralize power and fragment formerly powerful institutions. One of the key characterizations of the USSR was its strong central policing system; it is thus not surprising that when Yeltsin came to power, he wanted to break apart and weaken the power-wielding institutions of the state, namely the MVD and the KGB. In this case, I argue that Yeltsin was making a trade between legitimacy and centrality of force. By weakening the concentration of state power, Yeltsin hoped to create a new, legitimate, decentralized, capitalist state that contrasted sharply with the centralized, collapsed Soviet system.\(^6\) The unintended consequence of such rapid decentralization was fragmented and weak law enforcement agencies, which I claim contributed to the state’s failure to provide adequate protection to emerging entrepreneurs.

\(^5\) In the case of individuals, people often register their property under the names of family or friends.  
\(^6\) Further discussion of the importance of the decomposition of the KGB and the MVD is included in later sections.
Vadim Bakatin was Yeltsin’s appointee for the head of the KGB. He openly admitted that they actively worked to dismember and weaken the state security organizations by decentralizing them and reducing their power directly by reducing the size of the staff. The KGB was split into five separate agencies (External Intelligence Service SVR, the Federal Agency for Government Communications and Information FAPSI, the Federal Counterintelligence Service FSK and later renamed Federal Security Service FSB, Chief Guard Directorate, and the Border Guard Service). All these agencies, with the exception of FAPSI, and the addition of MVD the Tax Police, and the Federal Customs Service, had paramilitary units and performed detective and operational work. It is thus not surprising that Volkov argues that the “new divisions of spheres of competence and jurisdiction was poorly defined, and the agencies competed with and duplicated one another, weakening their overall coordination.”

In addition to the intentional weakening of the state, rapid privatization, the removal of price controls, and liberalization of trade further destabilized society. Furthermore, Volkov argues that the “concept of deviant behavior withered away along with stable norms shattered by the speed of social change. Ironically, in many cases it was the private entrepreneurs of violence who claimed to maintain order and exercise justice.” Volkov suggests that there was a legitimate need for organized crime protection as a source of justice and as a source of stability.

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7 Volkov, 2002: 130.
9 Here, Volkov mixes two distant types of changes and solutions: social normative changes and legal institutional changes. It is perhaps more precise to look at the changing social and legal norms as separate but related changes. Volkov xii footnote
By 1996, a survey conducted by Timothy Frye shows how commonplace private protection had become. Over 40% of retail trade shop owners in Moscow, Smolensk, and Ulyanovsk admitted frequent “contact with racket” but considered it a relatively minor problem (average 3.13 on scale of 1 to 10), particularly when compared to state taxes and capital shortfalls. Frye’s study also showed that shopkeepers understood the racket as a valuable service and a substitute for public police protection and sometimes even for courts.

This information is not as shocking when compared to the data gathered by Richard Rose. In his article “Russia as an Hour-Glass Society: A Constitution Without Citizens,” he presents the following survey data included in the figure below.

![Figure 4.1 Expectation of fair treatment by various institutions (%)](chart)

The lack of expectation of fair treatment from the police is especially relevant (and its magnitude shocking). Law enforcement in Russia was unable to protect the
new capitalist activity after the transition, and the militia was loyal first and foremost to the state rather than to its citizens.\textsuperscript{10} This created a demand for protection, which was easily met by the excess of unemployed people who had a comparative advantage in violence.

Looking at the issue of fair treatment by government officials specifically, we also find that within Russia there is very little expectation of fair treatment without bribes or connections (and even with bribes or connections, expectations are low). Miller, Koshechkina, and Grodeland conducted a more detailed survey in 1993 and 1994, during which they interviewed over 6,000 people in hour-long interviews, carefully selecting interviewees to create a representative sample of the public. They found that the public largely did not expect fair treatment from government officials. As a point of comparison, I also include their data collected from the Czech Republic in the same year in the chart below.\textsuperscript{11}

\begin{enumerate}
\item \textsuperscript{10} This is an important trend that is discussed in several Latin American countries. In the case where an authoritarian regime has transitioned, serious police reform is necessary. In an authoritarian regime, the police and the military are meant to protect the regime first and the citizens are subordinate to the regime. In a democratic regime, the police should protect the citizens. Eaton, 2008.
\item \textsuperscript{11} Further research might find such comparisons especially illuminating and build off this work (i.e. investigating the relationship between transitional justice and police reform, the relationship between transitional justice and popular trust in government officials, etc).
\end{enumerate}
Though it is more difficult to prove conclusively that government officials treated citizens unfairly, the popular opinion presented above is very telling. Given that the overwhelming majority of citizens did not expect fair treatment from either the police or government officials, that the courts did not have the power to enforce their verdicts, that laws (taxation and otherwise) were complex and filled with loopholes, and that government protection agencies were fragmented and disordered, it is understandable that there actually existed demand for private protection.\textsuperscript{12} From the information presented above, I create my first premise for the existence and growth of private protection as an organized crime source of revenue: the demand for private protection.

\textsuperscript{12} It is worth asking how useful the private protection rackets were to consumers. If neither the government nor the crime groups provided adequate protection, entrepreneurs would be in a very precarious situation and would be forced to choose the less costly form of protection. Perhaps surprisingly, in many cases, the criminal organization actually helped people protect themselves and their property. For anecdotes and stories supporting this claim, see Varese, 2001.
4.3 Economic failure and supply for private protection

We now look to the supply side: the organized crime groups themselves and why they might offer private protection services. Naturally, many organized crime groups begin forcing businesses to purchase protection very much in the traditional racket sense; that is, the mafia group poses the threat against which it protects its client. In order to maintain legitimacy, however, these rackets do have to provide protection to their clients, as Varese shows.\(^\text{13}\) They thus must be able to truly offer protection services.

In order for an organized crime group to specialize in protection, it needs a comparative advantage in both information and violence. Information is crucial for any organized crime activity, as is violence, so this aspect is not unique to the protection industry. The element that is unique to the private protection industry in post-Soviet Russia, however, is the existence of mafia members who specialize in policing, information, violence, and covert action; these members are former KGB and MVD agents.

In the previous section, I discussed the importance of Yeltsin’s decision to weaken and deconstruct the power-wielding institutions of the Soviet period; he strove to lessen their influence and create a contrast between the new and old regime.\(^\text{14}\) Not surprisingly, such reorganization and decentralization led to massive layoffs. Between September 1991 and June 1992, over 20,000 KGB officers were

\(^{13}\) Varese, 2001: 110-120.
\(^{14}\) Bakatin, 1992: 77.
Agents resigned because of the instability of the organization, because of the negative public attitude toward the organization, and because the state budget was shrinking while inflation was devaluing wages, making their work with the agency altogether less profitable. After the crisis of October 1993, during which conflict between Yeltsin and the parliament over the constitution turned deadly, even more agents resigned, notably members from elite antiterrorist units. By 1995, the members of the KGB with between seven and fifteen years of experience had decreased by a factor of five and the size of the overall central organization had decreased by about 46%.16

Although the formal structure of the MVD did not experience such drastic restructuring, the changes that the organization underwent were significant. Like the KGB, morale and salaries were low, and in fact, even more employees resigned from the MVD than from the KGB: nearly 37,000 in 1989 and 30,000 more in 1990.17 In addition, 83,500 were dismissed in 1989 but surprisingly these employees were, for the most part, replaced. From 1991-1996, the MVD was characterized by high turnover and corruption, with around 200,000 employees dismissed each year, nearly 50,000 of whom were for legal violations; former employees were replaced by new cadres, making the MVD very unstable and weak.18

The years 1993-1996 saw huge growth in number of former police and state security employees in private protection firms and mafia organizations.19 Given the

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16 Belaia kniiga rossiiskikh spetssluzhb, 1996: 76.
17 Shelley, 1996 56.
huge amount of employees who resigned or were dismissed from the security agencies, this growth makes intuitive sense. Agents who specialized in gathering information, who had connections to the government and to the police, would be desirable members of organized crime groups, particularly those specializing in protection. Because risks were now high in the formal sector, both private and public, the difference in risk between working for a criminal organization, working for a newly privatized business organization, and working for a government agency was minimal. Moreover, the return was much higher, considering shrinking government budgets on both the state and local levels, and the inflation that devalued fixed wages earned in the private sector. A place in criminal organizations, rent seeking ones in particular, was thus both a good fit for former security agents and appealing to them.

In addition to the former KBG and MVD agents, organized crime groups were composed of men who specialized specifically in violence. The period of market reforms in the early 1990s witnessed a huge amount of young men becoming racketeers; these men are different from the KGB and MVD agents and require separate analysis.\(^{20}\) In order to better understand who these young men are, we can look to the elimination contests, the mafia wars, of the early 1990s, which helped usher in the dominance of a new criminal group: the sportsmen or bandits. Criminal conflicts drastically reduced the influence of the *vory-v-zakon*, the elite criminal groups of “thieves-in-law” from the Soviet era. Instead of this traditional, hierarchical crime group, new young and unconventional criminals began to dominate the underground scene.

This new and unpredictable group was compromised of young men who could no longer maintain employment as athletes or as military men. The Soviet Union had placed huge emphasis on athleticism and as Varese explains, the Soviets had created many important sports clubs throughout the country. In these clubs, men formed close relationships and trained rigorously for athletic events. When the Soviet system collapsed, these sports clubs could not be supported and many athletes could not receive salaries just for training and competing. Given their physical strength, the closeness of their ties with each other, and the opportunities in the criminal world, many of these sportsmen created or joined criminal organizations.²¹

Similarly, veterans returning from the Afghan war found themselves in a difficult position in the early 1990s. After a long and difficult war, riddled with PTSD and confusion at returning to a much-changed country, veterans had trouble re-entering society. Additionally, Yeltsin drastically reduced the power of the military and many military men were discharged. The extreme inflation and economic turmoil made job prospects grim and existing jobs unfavorable, and many veterans thus joined the criminal world. Military men who specialized in violence were desirable for organized crime groups, and many opportunities in the ever-growing criminal world were desirable for former military men.²²

Criminal groups require a comparative advantage of information and violence, and the sportsmen and war veterans easily provided the latter. Former KGB and MVD employees were trained to gather information and perform tasks that would be especially conducive to operating a private protection firm, and many of those who

²¹ Varese, 2002.
²² Ibid.
resigned or were discharged did in fact just that. Though exact numbers are difficult to determine, it is clear that organized crime groups were well equipped with members who specialized in violence and information gathering. From the material presented above, I create my second premise for the existence and growth of private protection as an organization crime source of revenue: the ability for organized crime groups to supply protection.

4.4 State capture theory

State capture theory argues that criminal groups exist primarily because of their ability to infiltrate the state, either through systematic bribes of state agents or by actually becoming agents of the state itself. As I explained in my discussion of scholarly approaches to organized crime, I prefer to combine the state capture approach and the state failure approach; this amalgam seems especially suitable in the Russian case in the 1990s, when organized crime groups responded to demand for protection as a result of state failure and continued their existence through state capture.

An important element in the Russian case is the continuity of regime heads of state and the continuing relationships of people exiting state agencies maintained with current state agents; this allowed for low-cost state capture. Several scholars, among them Volkov, Varese, Cheloukhine, and Haberfeld, cite the alliance between the corrupt ex-communist nomenklatura and the Soviet criminal underworld as a meaningful component of post-Soviet criminal survival. Gilinskiy and Kostjukovsky emphasize the importance of the “evolving alliance” between the merging criminal
worlds (vory and sportsmen) and the corrupt officials. They argue that “contemporary organized crime, with its influence on the economy and state politics, was formed before Gorbachev's perestroika at the beginning of the 1980s” and the connections that were formed during this period are necessary for the illegal businesses of many criminals currently. Using the language of network structures, similar networks that existed during the late Soviet era also existed during the post-Soviet era.

Transitional justice would have restricted the access to power of these corrupt officials, and this would have likely raised the cost of “state capture” for the organized crime groups: they would have had to forge new relationships with officials, which would certainly be very costly. Information would need to be gathered about the official and about his threshold for bribery. Violence might also have been needed, as an additional way to induce state capture or collaboration. Both violence and information are very costly, and though both are needed even if elements of the old regime remain intact after the transition, it is reasonable to conclude that these costs are higher if there is a change in state actors.  

We can additionally assume that costs would be higher because those in power have an incentive to maintain the status quo: their current position in government and even their current financial comfort is tied to the status quo. Deviating from this by directly confronting organized crime or by better protecting property rights (and thereby reducing the demand for organized crime) is therefore not in the interest of those who are staying in power.  

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24 It is not necessarily clear that protecting property rights more effectively would actually reduce the
similar to Olson's “stationary bandits,” having long time horizons and thus incentives to help society grow and become more productive, it does not follow that they should eradicate organized crime. For Olson, there was a threshold of taxation that allowed the bandit to maximize his spoils. This threshold allowed society to be extremely productive, providing him capital in the future, and it also yielded him immediate capital. Similarly, I argue, organized crime in Russia seems to function like taxation for Olson's bandit: there is a level of pervasiveness of organized crime that is revenue maximizing for the state officials. Rather than merely citing Russian culture or societal structure, I argue that this desire to maximize revenue or spoils is the mechanism behind the lack of political will to stunt the growth of organized crime and to punish its leaders, as noted by several scholars.25

Transitioning from the theoretical and more towards the empirical, it is critical to remember that the formation of formal institutions at the same time as formation of organized crime groups. Government institutions and organizations, notably the MVD with 50,000 people dismissed each year for corruption, formed in an environment where organized crime groups were developing and often their spheres of influence overlapped and either competed or cooperated. Cheloukhine and Haberfeld argue that cooperation was the most popular option, as it was the least costly, and officials typically took a portion of the crime group’s profits.26 The protection rackets that sprung up after the dissolution of the Soviet Union therefore actually have their own

26 Cheloukhine and Haberfeld, 2011: 4-17.
private protection: their protection is provided by the state itself. 27 We thus observe, in effect, nested protection groups: the state protects the mafia from the state itself, and the mafia protects the citizens from the mafia, from the state, and from each other.28

Another reason for this nested protection structure and the low level of the public’s trust in the police can be related to the lack of transitional justice in Russia. The police, under Yeltsin, Putin, and Medvedev, still functioned primarily in order to protect the state. Because there was no restriction of former political collaborators and party members, there was no reform of the functions of the police. The mafia organizations therefore capitalized on the lack of massive turnover at the lower levels within the state and within other state institutions while maintaining their relationships with the more powerful officials in the hierarchy.

From the information presented above, I create my third premise for the existence and growth of private protection as an organization crime source of revenue: continuity of regime or of people in power, allowing state capture to occur more quickly and cheaply.

4.5 Summary

Thus far, I have identified my first four premises for the explanation and prediction of increase in the protection industry. The first, the demand for protection, developed from the state failure approach to organized crime and was informed by the
predatory and overly complex laws, the inability of courts to enforce their rulings, and public and popular distrust of government agents and of the police. The second premise, the ability of organized crime groups to become mafia groups by supplying protection, was derived from analysis of the members comprising the organized crime groups of the 1990s. Third, the continued connection between the mafia groups and the state was drawn from the alliance and ever-evolving relationships between criminals and corrupt officials. Because Russia did not undergo transitional justice, existing connections remained largely undisturbed and new connections were not extremely costly to form.
5 The waning of underworld protection industry: 1998 and on

Paralleling and related to Putin’s rise to power, the protection industry in the post-Soviet Russia began to seriously shrink in the late 1990s. Explanations of this phenomenon in academic literature have thus far been incomplete and ineffective. Volkov, for example, addresses predominantly the demand side of the protection industry:

When a high violence potential and high protection costs become burdensome for most participants, the conditions for a reassertion of the state emerge. Only then do state laws and their enforcement gradually gain priority, and the central authority is able to achieve greater control over the use of force. On the basis of this assumption, I suggest that a conscious project of state building, which has become increasingly important in Russia since the end of 1998, was preceded by a consolidation of violence-managing agencies, the capitalization of their incomes, and a partial delegation of their enforcement capacity to state agencies.¹

While this is insightful and useful, it is incomplete; it ignores the very important role of the state as a rational actor and it does not address the mafia organizations and their possible actions and reactions. It is not merely the case that when the general populace prefers the state to reassert itself in the protection market, the state simply does so; the capabilities of the state and of the organized crime group must be carefully considered. I therefore apply the three aforementioned factors and develop one more to provide a more complete explanation for the surprising decrease in the protection services offered by the mafia groups.

¹ Volkov, 2002.
5.1 Demand for protection in the late 1990s

While it is true that it becomes more costly for consumer as violence increases and the consumer would therefore prefer safer and less costly alternatives, this does not seem to be the primary cause of the eventually disappearance of the organized crime-run protection industry. By 1997, the elimination contest and mafia wars had purged many criminal organizations and thus facilitated the consolidation of protections agencies. Moreover, criminal groups found violence to be a very costly form of punishment for deviant consumers and they therefore tended to punish through police visits, tax penalties from authorities, and other operational restrictions enacted by government authorities.² It therefore is untrue to claim, as Volkov has, that there was an increase in threat of violence to consumers and that this would then prompt the state to consolidate. Volkov could suggest that public opinion lagged behind the actual spike in violence, or that because the public did not have complete information about the end of the mafia wars their preferences changed in the late 1990s, but this would be difficult to prove and would still be an inadequate explanation; ergo neither Volkov nor my first premise hold the solution to the riddle.

5.2 Supply of protection in the late 1990s

Examining the supply notion also proves puzzling. In 1998, the economy plummeted and Russia entered its most severe recession since it abandoned communism. The government defaulted on its debt, inflation reached 84%, and food

prices doubled; the crisis was serious and felt acutely both within Russia and outside her borders. Given that economic hardships pushed men in search of lucrative occupations toward criminal organizations, it does not seem to make sense that the ability of the crime groups to supply protection would account for the industry’s wane. It is logical to argue that because many mafia groups drew significant revenues from small businesses and because small business were hit hard by the financial crisis, mafias would not want to continue incurring costs when they could not receive much revenue and likely little to no profit. This assertion seems to be slightly corroborated by interview evidence, but it isn’t strongly supported.\(^3\) I instead turn to the preferences of leaders of criminal groups as possible explanation on the supply side.

There was in fact a change in preferences of leaders of large criminal groups in the late 1990s, and they turned increasingly toward longer-term investments.\(^4\) The violence of the 1990s and the consolidation of power was costly, and criminal groups became more interested in lower cost, high revenue alternatives, often leading them to transform their organizations into financial-industrial holding companies.\(^5\) Former mafia group leaders entered politics and the formal business sphere, leaving the protection industry behind but still engaging in illegal trade (drugs, counterfeit goods, humans, etc), money laundering, and other operations. This allowed them to more easily build connections that safeguarded their illegal activities, while also deriving profit from legal means. Like Olson suggested in his work *Power and Prosperity*, the

\(^3\) Ibid. Ibid.  
\(^5\) Cheloukhine et al., 2011.
mafia leaders began to provide public goods and increase their philanthropic involvement in their regions.\(^6\) I cite this change in preferences, which begins in the late 1990s, as a partial explanation for the decrease in provision of protection by mafia groups.

5.3 State capture in the late 1990s

Transitioning to my third point, the state capture aspect and the importance of maintained connections between state agents and crime groups, the insights offered again seem incomplete. While there was a shift in power from Yeltsin to Putin, and thus the reorganization of the heads of many government organizations and ministries, there is no evidence to suggest that this created much difficulty for organized crime groups. New ministers and officials came from largely similar backgrounds and interviews suggest that criminals were actually becoming officials and were in fact better connected to the new officials.\(^7\) It thus cannot be argued that costs of maintaining illegal operations through bribery and payouts were significantly higher and therefore account for the wane in protection services offered by mafia organizations.

The evolving relationships between state officials and criminals organizations are difficult to detail precisely, but it does seem to be the case that preferences were not antithetical, or else collaboration would not have occurred. Volkov understands “state formation” in his last chapter as a reaction of the state to organized crime. He maintains that the reduction in violent crime is the result of a stalemate between the

\(^6\) Varese, 2005.
\(^7\) Cheloukhine and Haberfeld, 2011.
state and the organized crime groups rather than a true reduction in organized crime activity. While this might in part be true with regard to other organized crime activities, this seems to be a less than perfect conceptualization of the protection industry. In order to argue that the state and organized crime groups are currently in a stalemate, we must conceive of the actors as being separate and having opposing preferences; this does not seem to be the case. Officials in the government, even after Putin’s rise to power and reconstruction of the state, were still involved with organized crime groups and in fact, were increasingly heads and high ranking members of crime groups themselves and therefore could not have diametrically opposed preferences to those of the organized crime group. It is this occurrence that informs most of Cheloukhine and Haberfeld’s book, published in 2011, in which they argue that organized crime groups have mutated into organized corruption networks – economic and political networks comprising a criminal state. This argument makes differentiation between state and criminal agents difficult if not impossible, and the notion of state capture becomes inapplicable.

5.4 Legitimacy and the fight against the protection industry

Volkov’s discussion of the actions of the state against criminal organizations presented at the opening of this chapter is worth examining more closely and from a slightly different perspective. It certainly is true that the general public did not find the weakness, disorganization, and corruption in the central government ideal, and

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8 Ibid.
9 It is possible to conceive of Cheloukhine’s organized corruption networks as a case of perfect and complete state capture. Further applying the theory, however, is not possible as it assumes a distinction between state and criminal actors.
nor was the reliance on private protection agencies ideal.\textsuperscript{10} Putin used the general
dissatisfaction of the public and their desire for a stronger central state as an
important and influential part of his governmental work, even in 1997-1998.\textsuperscript{11} The
state’s legitimacy within its own borders was at stake. Criminal organizations
operated freely, laws were created and nullified overnight, inflation and economic
crisis strangled citizens; Volkov describes early and mid-1990s Russia as a Hobbesian
“state of nature,” which seems wholly appropriate.\textsuperscript{12} The ineffectiveness and general
distrust of the government put the legitimacy of the state at risk; popular opinion
swung from preferring freedom and individualism in the early 1990s to law and order
in the late 1990s, and it was with the promise of restoring law, order, and legitimacy
that Putin came to power.\textsuperscript{13}

In order to strengthen the power of the state and thereby its legitimacy within
the country, Putin emphasized centrality and control. In his presidential address on
July 8\textsuperscript{th}, 2000, he underscored the necessity of changes that were highly prioritized by
entrepreneurs: protection of ownership rights, fair competition, and modifying the
taxation system to lessen citizens’ tax burdens. In his speech, Putin acknowledged
popular concerns directly, saying:

This vacuum of authority has led to state functions being
appropriated by private corporations and clans. They have
surrounded themselves by their own shadowy groups,
lobbying groups, and dubious security services using illegal
means to obtain information. At the same time, state

\begin{itemize}
\item \textsuperscript{10} Mason, 1999.
\item \textsuperscript{11} Bova, 1999: 17-40.
\item \textsuperscript{12} Volkov, 2002. 126.
\item \textsuperscript{13} Bova, 1999: 17-40.
\end{itemize}
functions and state institutions are different from entrepreneurship ones in that they must not be bought or sold, privatized or handed over to be used or leased. Professionals for whom the sole working criterion is the law are needed in state service. Otherwise the state opens up a route to corruption and the time may come when it will simply degenerate and cease to be democratic.14

The meaning of this speech might be tainted by knowledge of how Putin’s Russia evolved after his election, but the value of the speech for our purposes is not rooted in Putin’s actual future actions, but rather the motivation behind the statements in the above selection from his speech. The public’s frustration with the arbitrariness of state action and the state’s clear lack of monopoly on violence put its legitimacy at risk, and Putin sought to restore legitimacy by strengthening the state through his so-called “dictatorship of law.”

The state began shutting down security groups and arresting their members as early as January 2000, when law enforcement officials arrested members of one protection group and another in July of the same year.15 By 2002, the private protection industry had largely disappeared.16 The process of re-establishing legitimacy within the state required minimizing the influence of criminal groups in the protection industry, and the state reasserted itself to accomplish this goal. From this information, I thus form my fourth premise: the dependence of mafia groups on state legitimacy. Mafia groups will exist under the conditions that either the state will

14 Address by President Vladimir Putin to the Russian Federal Assembly in Moscow on July 8, 2000. RTR TV, 08:00 GMT, trans. FBIS.
15 Sasha-Akula’s group was arrested in January and Andrei “Malen’kii”’s group in July of 2000.
16 Volkov, 2002. This is not to say, however, that the state adequately protected its citizens’ property rights; the protection services and their corrupt predatory nature transferred instead to the state itself.
maintain internal legitimacy even with the existence of private protection rackets or if the state has no internal legitimacy, it lacks the power to combat groups (the case of a weak or failed state). In the early 1990s, the Russian government was young and accepted simply because it was an alternative to the former Soviet system; it had a nebulous sort of legitimacy resting only on the fact that it was not Soviet and that is espoused democratic ideals. I suggest that private protection rackets were able to exist so long as the public accepted the legitimacy of the government. When this legitimacy became endangered, the state began to clamp down on mafia groups as part of its strategy to regain legitimacy. The state effectively dismantled the former mafia groups by arresting leaders and prominent members. By enforcing the law, Putin hoped to create a strong and legitimate government.

5.5 Summary

I have now identified all four of the factors in my framework. In an effort to understand why the protection industry began to wane in Russia in the late 1990s, I applied the first hypothesis, the demand for private protection, and found that it did not help explain the change in the protection market; though there was certainly frustration with the mafia groups, there was still demand for private protection. The second hypothesis, the ability of the crime groups to supply protection, also proved insufficient and only provided a partial explanation. There was no change in the ability of crime groups to supply protection in the late 1990s, but preferences and willingness to supply protection decreased as leaders of mafia groups did alter. Analysis of the third hypothesis was equally inconclusive: when examining whether
connections still existed between new state actors and mafia group members in the late 1990s, there appeared to be more of a reshuffling of the same nomenklatura network rather than a complete break from either the Soviet or Yeltsin eras. Putin’s rise to power did create some turnover within the state, but connections were still easy to make for organized crime groups. I thus developed my fourth and final hypothesis for the explanation of the decrease in private protection as provided by organized crime groups: state legitimacy. In response to the change in public opinion from favoring freedom and individuality to favoring law and order, Putin sought to make the state stronger and more legitimate by dismantling the private protection groups.
6 Conclusion

6.1 Summary

In the Russian case, organized crime is integrated in the legal realm; it exists not merely in the underworld, in the shadow and illicit markets, but it also has a prominent position in the upperworld, in the world of big businesses conglomerates and of kiosk owners. The waxing and waning of the protection industry within the organized crime world has been difficult to explain and predict, but in the above chapters, I have developed a framework that I suggest is both explanatory and predictive.

The first premise, the demand for protection, follows the state failure approach to organized crime and was informed by predatory and overly complex laws, the inability of courts to enforce their rulings, and public and popular distrust of government agents and of the police throughout the 1990s. Entrepreneurs were unable to protect their physical property or their financial property, and were especially vulnerable in the early and mid-1990s. While it is true that the purchase of protection was typically initiated in a coercive manner, it is also true that mafia groups provided a useful and demanded good: private protection. In its generalized form, I suggest that the following helps predict and explain the existence or growth of protection rackets:

1. **Within a given state, there is demand for private protection**
   -(resulting from neglect or inability of the state to provide protection)

   The second premise, the ability of organized crime groups to become mafia groups by supplying protection, was derived from analysis of the members comprising the organized crime groups of the 1990s. The 1990s were characterized
by difficult and unstable economic conditions, culminating in the 1998 financial crisis. Yeltsin’s restructuring and weakening of the KGB and the MVD resulted in many resignations and dismals within the organizations, forcing thousands of former agents to search for new jobs. These people specialized in information gathering and often in covert action, and many thousands found a place in private protection agencies and mafia groups. In addition to former state agents, sportsmen and war veterans, who specialized in violence and physical strength, were left jobless in the early 1990s and turned toward organized crime as a source of income. Though the ability of crime groups to supply protection did not change in the late 1990s, preferences changed and willingness to supply protection decreased as leaders of mafia groups turned increasingly toward longer-term investments and legal means of income. Thus, my second premise:

2. Organized crime groups have the ability to provide private protection (i.e. supply to match demand)

Third, the continued connection between the mafia groups and the state can be drawn from the alliances and ever-evolving relationships between criminals and corrupt officials. In the early and mid-1990s, Russia witnessed explosive growth in the private protection industry and through state capture, organized crime groups were able to exist with little threat from the state. I argue that this results largely from the continued presence of members of the former regime in the government. Because Russia did not undergo transitional justice, existing connections remained largely undisturbed and new connections were not extremely costly to form. Former communists have an incentive to maintain the status quo and to maintain their contact
with organized criminal groups. Because of their reluctance to reform the police forces, property was poorly protected and the type of organized crime group that formed included private protection in addition to the human trafficking, drug trafficking, and other illicit activities. The costs of capturing the state were also lower, since the organized crime group has had extended contact with some members of the new regime. Although Putin’s rise to power created some turnover within the state, connections were still easy to make for organized crime groups, given that those coming to power with Putin were largely from the former Soviet nomenklatura. Thus, my third premise:

3. **Within the state, there is continuity of regime or of people in power (which allows the racket to continue operating smoothly)**

Finally, the fourth premise was derived from the state’s suppression of organized crime groups beginning in 1998 and continuing through the 2000s. The state did not end all criminal activity (which is quite intuitive, given that the people in power were still connected with organized crime groups), but it actively worked to exterminate the protection industry and take power back in this realm. The change in public preferences and the erosion of the state’s legitimacy throughout the 1990s prompted this backlash against private protection. The Yeltsin’s state was accepted as legitimate in the early 1990s simply because it was an alternative to the Soviet system, which had collapsed. Individualism and freedom was highly prized, and because the state espoused these democratic ideals, it was accepted as legitimate until proven otherwise; hence the organized crime groups provided protection with little resistance from the state. Thus, my fourth and final premise:
4. The state will maintain internal legitimacy even with the existence of private protection rackets OR the state has no internal legitimacy and doesn’t have the power to combat groups (weak or failed state)

In its final form, my framework for the explanation and prediction of extra-legal private protection is thus:

1. Within a given state, there is demand for private protection (resulting from neglect or inability of the state to provide protection)
2. Organized crime groups have the ability to provide private protection (i.e. supply to match demand)
3. Within the state, there is continuity of regime or of people in power (which allows the racket to continue operating smoothly)
4. The state will maintain internal legitimacy even with the existence of private protection rackets OR the state has no internal legitimacy and doesn’t have the power to combat groups (weak or failed state)

If true in a given state, I claim that these four factors taken together predict the existence of the private protection industry in the criminal world. To date, researchers and policy makers have not developed a model for the private protection or mafia groups. I have created the above framework from the Russian case and claim that each factor is general enough to be applied more broadly to any state at any time.

6.2 Further Research

The framework I have developed has been developed out of specific historical contexts and its external validity therefore still needs to be tested. This could be done by applying the framework to other countries and time periods, such as 19th century Sicily, New York City in the 1920s, Ukraine and the Caucasus after their transitions
from communism, the former Yugoslav republics during and after the wars of the 1990s, possibly Mexico currently, etc. The Russian case is unique because of certain path and time dependent processes, such as the co-development of formal state institutions, legal private businesses, and criminal groups, but this uniqueness should not constrain the resulting framework to this one case.

In addition to testing for external validity, further research might test the framework rigorously within the Russian context as more information becomes available. Possible sources include interviews with former members of mafia groups (their leaders, in particular) and survey material collected from entrepreneurs about their perceptions of the changes in the underground private protection industry.

Furthermore, I openly acknowledge that there are possible places to make the factors within the framework more collectively exhaustive (while still remaining mutually exclusive), should more information become available. Specifically, in addition to legitimacy of a government within a given state, it is also possible to consider legitimacy of a government as perceived by the international community. Understanding how states maintain legitimacy within their own borders is a complex topic, but a general approach for understanding international legitimacy seems even more difficult to form into a paradigm. The importance of international trade and business (in addition to strategic alliances between states) stands out as an important element composing a state’s legitimacy as accepted by the international community.

From simple assessments of payoffs and preferences, I arrive at the following possible premises explaining the relationship between international investment (and de facto, international legitimacy) and the existence of mafia groups:
Ia. If international investment is negatively correlated with the presence of mafia groups, and international investment will not directly benefit crime groups, then lack of international investment will not give mafia groups incentive to stop offering protection.

Ib. If international investment is negatively correlated with the presence of mafia groups, international investment will directly benefit crime groups, and international investors consider the risks minimal or the payoff great even to invest, mafia groups will not have incentive to stop offering protection services.

IIa. If international investment is positively correlated with the presence of mafia groups, mafia groups will continue to offer protection, as it does not deter the investment from which they benefit.

The state as a player is still crucial, and a more systematic charting of causal mechanisms would be useful. Such a theory might rely on interviews with international business people, government agents, and leaders of mafia groups. Moreover, great care must be taken to not conflate general fear of Russian organized crime groups (money laundering services and human trafficking in particular) with the specific provision of protection.

Finally, this past year, Russia has passed legislation restricting the sale of alcohol to state approved stores, drastically cutting down the revenue streams of kiosks. There is also talk of barring kiosks from selling tobacco products as a way to pump up government tax revenues, as alcohol and tobacco are more heavily taxed in retail stores than in kiosks. The increasing regulation of kiosks will likely impact the remaining protection rackets operating outside the state, and this natural experiment would be an interesting study in the decision making of organized crime groups.
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