Rich Russians fill the first class lounge on the Moscow to New York Delta flight. Volodia, in his mid-twenties, dressed in an Armani suit with ample weighty gold jewelry around his thick neck and wrists, sits next to an understated freelance American journalist, a fluent Russian speaker, upgraded from business class. Sharing the flowing champagne, Volodia overcomes his initial reluctance to speak.

“I’m going to visit my wife and child in Boston. They live there to be safe.” This youthful master of Moscow continues, “I stay in Moscow with my mistress. I buy the latest in fashion for her at the Italian boutiques in the Slavianskaya Hotel. When we go to nightclubs and casinos, everyone stares at her beautiful legs. I am the envy of all my circle.”

Replenished by another drink, Volodia recounts with pride his ascent into the ranks of the “new Russians,” a group for whom the $6,000 first class ticket for a short trip to the United States is nothing.

“Just before the collapse of the Soviet Union in 1991, I met my future wife, the daughter of a minister, at the institute where I was studying. My father-in-law later set me up in business.”

Much Russian-style business bears no similarity to its Western counterpart. It does not trade in goods or produce anything of value. Instead, it merely drains the state. Volodia’s father-in-law provided a warehouse and two customs officials to assist him. Tractor trailers of Mercedeses and other imported vehicles passed through Volodia’s privatized customs post. The truckers avoid paying the Russian state’s high customs duties by making mandatory payments at Volodia’s warehouse. The state customs officials, subordinate to Volodia, certify the payment of customs duty and in return receive large payoffs.

“With this business I am able to earn several hundred thousand a month. Of course, some must be shared with my father-in-law, the minister. But much I get to keep. Clothes and upkeep for my mistress, my slick apartment, bodyguards,

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my Mercedes, all require money. But the dollars just keep coming. I regularly bet thousands at the casinos. Still plenty remains to send my family in the States to live well, far away from the muddy and dangerous streets of Moscow. You need to be tough to live in Moscow today, and I don’t want my son growing up in this world.”

The journalist listened for seven hours, shaping the story in her head as she was listening. Her musings were abruptly terminated at the flight’s end by the killer instincts of her traveling companion. There were no kind words of “It was nice talking to you.” Instead he parted with, “I don’t want my family touched. If you write anything about me, I’ll find you and have you wiped out.”

Volodia is not the exception but the rule. Regional crime bosses control customs warehouses in many parts of the country. Many customs officials are on the payroll of crime groups. The Russian state cannot collect its taxes because corrupt officials collude with organized crime. Russia is lucky to collect duty on even 35 out of every 1,000 imported cars.

In the absence of revenues, the average Russian worker may not see his meager salary of $200 a month for months on end, if at all. In the Soviet period, Russians wisecracked, “They pretend to pay us and we pretend to work.” Now the state does not even pretend to pay the workers. The cause of the nonpayment crisis, in the words of First Deputy Prime Minister Anatoly Chubais, is “misappropriation and theft.”

Volodia’s crime is transnational. His stolen money is laundered to the United States. Volodia is a small-scale operator; he controls only one warehouse. But Volodia’s story is repeated thousands of times across Russia.

A $30 million estate on the French Riviera is now in the hands of American law enforcement, confiscated from a Russian money-launderer. Multimillion dollar estates in Washington, D.C., suburbs are now inhabited by Russians whose ever-present bodyguards suggest an illicit source of their wealth. Cypriot villas built with money plundered from the Communist Party treasury are the domiciles of “new Russians” who have fled cold winters and crime for their sybaritic lifestyles. This conspicuous consumption is the tip of the iceberg. Billions of dollars more lie in international banking centers throughout the world. No region of the world is without its Russian capital.

Since the collapse of the Soviet state, $50 billion to $150 billion has flowed out of Russia. Phony front companies and Russian offshore banks have facilitated the capital flight. The movement of money continues unabated, according to Abalkin, a leading economist. Presently $1.5 billion to $2 billion departs monthly. Money is being moved out of the country because banks are unstable and criminalized. Russian organized crime has infiltrated domestic financial markets more deeply than crime groups in most other countries with strong domestic criminal organizations. Irrational tax policies, with rates reaching as high as 80 percent, are another incentive to move money overseas. The problem of capital flight dwarfs the lamented absence of foreign investment, estimated at only $6 billion since 1991.

Much of this capital flight is money stolen from the Russian state, hijacked by an unusual coalition of former members of the party elite, the military-industrial
complex, and veterans of the security and law enforcement apparatus, supported by the strong arm of organized crime. In the five years following the collapse of the Soviet Union in 1991, Russia moved from an almost totally state-owned economy to one in which 80 percent of the property was in private hands. The criminal elite hijacked the privatization process, awarding itself the properties and natural wealth of the Soviet state. The old state monopolies were privatized; the “aluminum” and “nickel” mafias bled their communities in the Urals and Siberia. Export licenses for precious natural resources were granted to the powerful, facilitating the grab for oil and valuable minerals. Yeltsin’s athletic trainer, Tarapischev, received an exemption from taxes on his alcohol and tobacco imports. That privilege alone cost Russian taxpayers $250 million annually.

Acquisitions on a huge scale were possible because there were no legal safeguards and no transparency. With the collapse of the central state and the rise of regional powers, local officials helped themselves to the natural resources now under their control. Without experience in a market economy, the weak and corrupted state was powerless to protect its citizens from the avarice and privatized violence of the new elite.

The plunderers stop at nothing, stripping banks and enterprises of assets. The coffers of the Communist Party were seized by its former leaders, providing them fat bank accounts abroad, deluxe apartments in Moscow, and elegant villas overseas. Millions of citizens lost everything in fraudulent pyramid schemes and bogus investment funds, and the least fortunate have been killed for their valuable apartments.

Organized crime is not the same phenomenon in all parts of Russia. In Siberia and the Urals, the vast mineral resources of the former Soviet Union are up for grabs. Trafficking is occurring not only in precious metals but in nuclear materials. Vladivostok in the Far East is fast becoming a center for both Russian and transnational organized crime. Regional differences in organized crime are explained by what there is to steal. But in all parts of the country, organized crime is like a cancer growing uncontrollably within society.

Sturgeon is over-fished, and massive deforestation is under way in the Russian Far East, creating an ecological disaster that rivals that of the Soviet period. The sale of caviar and timber is facilitated by the links between domestic and foreign crime groups. The proceeds of this carnage turn up in banks as far away as Australia.

The theft and export of Russia denies the country the capital it desperately needs to rebuild after seventy years of Communist misrule. In the words of a doctor reduced to driving a Moscow taxicab, “I would not care about the opulence of the new Russians if they were creating an infrastructure for the next generation like the Fords and Rockefellers of your country. They left a legacy. But our new financial elite are leaving nothing behind. What will there be for my grandchildren to do in this country?”

Russian nationalist writer and filmmaker Stanislav Govorukhin described and depicted The Great Criminal Revolution of 1991. The workers benefited little by the 1917 revolution and again they are the losers. Coal miners struck at the end of the Soviet period because they lacked even a bar of soap. Now many who
helped topple the Soviet state have even less. Wages are unpaid, mines are closed, and the money to retrain and rebuild new industries for these displaced workers all lies outside the country. Half of the billion dollar subsidy to Rossugol (Russia’s coal industry), according to calculations by a World Bank consultant, disappears annually. If miners live beyond their current life expectancy of forty-five, they face a future without pensions because the money has been embezzled by corrupt managers and union leaders who now have fat bank accounts overseas.

Foreign countries were at first happy recipients of Russia’s billions, but this cash did not arrive without costs. The leading French monitor of money laundering commented, “At first no one cared when the billions arrived on our doorstep, but then, in a logical progression, the contract killings followed the money and Russians began killing Russians on our soil. Before we knew it, the Russians had decamped on our territory, they took over the villas of southern France once occupied by the Arabs.” Increasingly, Europeans and Americans are realizing the price-tag of Russia’s exported billions.

“Stealing the Russian state” refers not only to the property of the state or the values of the society, but also to the functions of the state, appropriated by corrupt governmental officials for their personal gain. The police do not police, the military cannot fight, and the health care system is a national disaster. Police and members of the military sell their arms and nuclear materials to crime groups rather than use them to protect the citizens and the state. Donated medicines and contraceptives are sold for personal gain by health care officials; rates of infectious and venereal disease are climbing to unprecedented levels.

Other countries have been looted by their leaders and the proceeds shipped to Swiss banks and offshore havens. The world watched as Mobutu surrendered power after years of pillaging his impoverished country, his billions invested abroad in European real estate and secret bank accounts. Russia’s uniqueness always lies in its scale. Instead of one Mobutu, there are thousands with their hands in the till, aided and abetted by the industrial and banking elite. There is no limit to greed. As Vladimir Borzhenko, an associate of a Russian titan, explained, “The rules of the game in Russia are such that when you have reached a certain level, you cannot stop. . . . If you rest on your laurels, you will be kicked off your perch quite painfully. It’s like a bicycle: you fall when you stop.”

As in Africa, the world has stood by complacently watching the theft. In the African case, Mobutu was the bastion against communism. Western blindness in Russia’s case is similar, “These are the democrats who will prevent the return of communism.”

“Mafia” has become a generic term for all of those responsible for the criminalized Russian economy. But organized crime in Russia is more than gun-toting thugs in leather jackets who model themselves on Grade “B” Hollywood gangster films. It is often more subtle, harder for the untrained eye to detect. The plunderers of the former Soviet state are a more frightening phenomenon with tentacles reaching into every part of the Russian economy and every region of the vast state.

The most visible side of Russia’s criminalized economy are the goons who occupy hotels, restaurants, and nightclubs. They are organized crime with a little
“O” and a little “c,” that trafficks in drugs and arms, runs automobile theft and prostitution rings, and smuggles aliens. The mobsters also control small-scale commercial activity—hotels, restaurants, food distribution, consumer markets, and the pervasive rackets that are the bane of every businessman’s existence. Ethnic groups dominate these markets; the most notorious are the Chechens, but hundreds of other groups operate in Russia from all regions of the former USSR. Based on family and clan structures, they resemble in structure and familial loyalty Italian organized crime.

“There is no Russian mafia,” a deputy minister of interior proclaimed at the UN Ministerial Conference on Organized Crime in Naples in 1995. The audience was incredulous. Everyone lives in fear of the Russian mafia with its outposts on every continent. The minister’s speechwriter later explained to me, “There is no Russian mafia because they are not Russians.” He continued, “Azerbaizhanis and Armenians who will kill each other in Nagorno-Karabagh will cooperate closely in running Russia’s criminalized markets. The coalitions that do not exist in the licit economy function effectively in the illicit economy.”

Russian crime groups are willing to work with anyone. Ethnic-based groups team up with (thieves-in-law) Russia’s made men, the traditional kingpins of the criminal underworld. Strategic alliances are formed with overseas criminal organizations. Russian women serve as couriers for Nigerian drug traffickers; Russian prostitutes are exported to Asian markets controlled by Yakuza and Triads; a Russian mobster brokered the sale of a Russian submarine to members of the Cali cartel; major arrests in Italy followed the infiltration of Russian organized crime into the governmental financial elite and security services.

The theft of the Russian state cannot be blamed on the Russian mafia. The billions lying abroad are not generated primarily by drug trafficking, as is true for crime groups in Mexico, Italy, or Colombia. Organized Crime with a capital “O” and a capital “C,” the grand theft of the Russian state, has been perpetrated by the criminal-political nexus.

The hijackers of the Russian state are not organized like a traditional crime family. They do not resemble the top-heavy structure of an IBM before restructuring. The groups’ flexible network structures have more in common with modern streamlined corporations that hire the best for specific tasks. The displaced military-scientific elite, the top computer specialists, statisticians, and money-launderers are at their disposal. They are so good that a wiretap on mafia don John Gotti once heard, “I’m going to hire one of these smart Russians,” for his tax evasion schemes.

Russia is not exceptional; all of the Soviet successor states, as well as the for-
mer socialist states of Eastern Europe, have been pillaged by their former elites. The Czech Republic, once hailed as the pillar of rectitude, now has a new term to describe the pervasive plunder and export of capital, “Tunelovani.” The money travels underground to its new home beyond Czech borders.

The Soviet mindset did not die with the USSR. There is no devotion to state nor to society. In all of the Soviet successor states, the destructive cycle of “Where’s mine and what is in it for me” is perpetuated. All fifteen newly independent states have been plundered. Russia, the richest heir of the USSR, leads the pack. But the entire former USSR is up for grabs, from the Baltic states and Ukraine in the west to the tiny impoverished country of Kyrgyzstan on the Chinese border. The amount stolen depends only on what is available to steal. Russians always have lived on a grand scale and their theft is just grander than everyone else’s.

Russia’s rapid privatization facilitated the theft of the state. Slowing the privatization process was no protection against the insider grab for property. The elite in Belarus, Kazakhstan, and Ukraine all have taken more than their share. But nowhere was it as easy as in Russia, where 80 percent of the economy was privatized in five years without any legal protections.

One of Russia’s leading banks wanted a modern typography plant in central Moscow. By law, the plant should have been privatized to its workers. The bank took the building. When the workers showed up to protest, they were greeted by a private security firm complete with tanks ready to fire on them. Television broadcast this moving scene reminiscent of prerevolutionary times, but to no effect.

In the new, democratic Russia, the workers sought justice. With American AID money to finance their suit, the workers took the plant’s new owner to court. Justice was on their side, but it was as unattainable as in the Soviet period. The judge ruled that the workers had been deprived of their rightful property. But the courts could not restore the building to the workers, and there was no financial compensation. Without the rule of law, the court’s ruling was unenforceable.

The typography plant case is unique only in that banks rarely use tanks to protect their interests. Repeatedly, the corrupted state, in collusion with the new economic oligarchy, is unwilling and unable to protect the property rights of its citizens. The ordinary citizen has acquired no financial stake in the future.

Nothing in this is new. Corruption flourished in the USSR but not on the same scale. Anyone who had a modicum of power had their hands in the till. Corruption flowed from the top and went all the way down. Perestroika opened the Soviet economy to private economic initiative. The new private economy was criminalized from its inception. And no one knows how to eliminate an organized crime problem. The late 1980s in the USSR are a case study of the creation of organized crime and a criminalized economy.

Prohibition began the month that Gorbachev became secretary general. Senior police officials reminded the Soviet Politburo of the lessons of American prohibition. The collective leadership ignored the warnings, believing that the benefits of increased productivity from reduced consumption of alcohol would outweigh the criminal costs. The aging Kremlin made one of its biggest bloopers.
Bootlegging quickly became professionalized, moving out of the hands of elderly women pensioners into the hands of organized crime. The state lost the 10 percent of its annual budget that it derived from the sale of alcohol. The enormous profits went instead to crime groups and government officials whose payoffs were at least a third of the profits.

At the end of prohibition in the United States, the bootleggers had few options for investing their money. Their trucks helped to move them into trucking and, subsequently, into the teamsters’ union with the ignominious Jimmy Hoffa. Capital was plowed into Las Vegas, building a glamorous gamblers’ paradise in the middle of the desert.

Privatization of the Soviet state immediately followed prohibition. Russian organized crime and its associates, corrupt bureaucrats, enriched by years of prohibition were not limited in their investment options. Unlike what happened in the United States, they were not operating in a mature capitalist society with numerous legal safeguards. Their home was a transitional economy, where the state was for sale and there was no one to guard the process. The possibilities were limitless.

The criminalized elite were like kids in the candy store, buying everything they could get their hands on and selling for dollars anything of value. The criminal elite hijacked the privatization process using force, if necessary, but relying mainly on their close ties to the former Communist Party elite, the military, and the banking sector. The Russian political-criminal nexus gained far more during privatization than their counterparts in Colombia, Mexico, and Italy, where the redistribution of state resources occurred on a more modest scale.

Force could be bought at low cost by the pillagers of the Russian state thanks to another major policy mistake of the Kremlin. In the late 1980s, in an effort to humanize the brutal correctional system, hundreds of penal institutions were closed. This misplaced humanitarianism released 700,000 criminals into an unprepared society. No one planned for their release. By the late 1980s, Russia no longer guaranteed employment. The state had abandoned the social welfare system of communism and had put nothing in its place. There were no unemployment benefits or welfare to support these ex-convicts, whom only organized crime would hire.

The Soviet revolution was fought in the name of social equality. Tens of millions died to expunge the stratified prerevolutionary society. During the seventy years of Soviet rule, social inequality was reduced. The mass of the population lived badly. But those at the top were denied the opulence and grandeur long associated with the Russian soul.

By the mid-1990s, within five years of Russia’s second revolution of the twentieth century, the country had returned to its longstanding traditions. A small, highly visible, and opulent elite avoid the impoverished masses, sheltering themselves by bodyguards, residing in lavish dachas ringing major cities, and traveling in chauffeured Mercedeses. If present trends continue, historians in the twenty-first century will look back on the Soviet period as a deviant blip in the long history of a highly stratified society.
Russia is not Latin America. The specter of Latin America haunts many Russians who see their living standards rapidly descending to Third World norms. Mashkov, Yeltsin’s representative in his hometown of Ekaterinburg, laments that “Russia’s future may be Latin America with political instability, great social differentiation, and a highly educated population unable to realize its potential.” No wonder, in a nationwide survey in 1997, over two-thirds of Russians for the second year in a row stated that their “country is going in the wrong direction.”

Hundreds of millions of dollars in Western aid have poured into Russia to promote privatization. Yet the aid has not always been on the side of the angels. The so-called reformers we have promoted have often been as corrupt as the dinosaurs we seek to isolate, or more so. In a new page in insider trading, two key American advisors to Harvard’s Institute for International Development, advising Russians on privatization, provided inside information to family members investing in the Russian economy.

The collapse of the USSR has brought neither free markets nor the long-sought democracy. The new criminal elite is a new form of authoritarianism. Citizens of the Russian state have traded one form of control for another. Communist Party domination is supplanted by the new economic oligarchy that limits free elections, civil society, workers rights, and freedom of the press and has assumed the state monopoly on violence.

Journalists were key in disclosing the ills of the Soviet system. But Russian journalists in the post-Soviet era are not beneficiaries of the revolution they helped to create. The cash-starved media gobbled up by the industrial titans are now censoring the press. Muckraking journalists investigating organized crime and insider privatization are intimidated or killed.

Naive Western observers exclaim, “Look at all the new organizations that have sprung up in Russian society, civil society is clearly taking root.” The population looks at them more cynically. Many criminalized companies, like their counterparts in Colombia, support sports teams and cultural institutions as a way of currying favor. Other charities exploit their tax free status to launder money. New York prosecutors, tipped off by their Russian colleagues, prosecuted the heads of a Chernobyl victims’ fund for embezzlement and money laundering. The gruesome bombing in a Moscow cemetery during a memorial service for the assassinated head of an Afghan Veterans’ Association is a further reminder that even charity is tainted in Russian society.

The coercive apparatus of the state—the security and regular police—has been privatized to organized crime. The brains and brawn of the security police have been moved to the private sector, and hundreds of thousands staff its private security forces. Mike Waller, a noted KGB specialist, disclosed in a Wall Street Journal op-ed article that former KGB personnel dominate the board of Most bank. Two visitors came to Waller’s house in Bethesda suggesting that he retract his article. The Wall Street Journal spent close to one million dollars defending itself. The head of Yeltsin’s personal security force, Korzhakov, an enemy of Most bank, offered the Journal $10,000 for secret videos that would compromise Most bank.
The Wall Street Journal’s lawyers politely refused. Subsequently, Most bank withdrew its suit. Other Western television stations and newspapers censor themselves rather than spend millions of dollars to defend their stories.

Labor markets, once controlled by state planning and submissive trade unions, are not free. Corrupt trade unions provide no protection for a working population that presently lacks the basic social safety net. Cradle-to-grave security collapsed with the Soviet state. Many cannot afford to bury their dead, an all too common problem in a country where male life expectancy has declined to fifty-seven years!

In mid-1997, a reinvigorated Yeltsin was ready to fight organized crime and corruption. The most corrupt members of his entourage, including Tarapsichev and Korzhakov, were ousted. Vigorous champions of a free market were added. Yeltsin was even ready to take on the governor of the Far East, Nadzaratenko, who three years previously had physically ousted the democratically elected mayor of Vladivostok from his office with gun-toting thugs. Cherepkov, reinstated as mayor after a two-year struggle, now presides over a city that lacks electricity ten hours a day and where teachers and pensioners are not paid because their wages have been stolen by regional officials.

Vladivostok is six thousand miles from Moscow. But Yeltsin’s power stops many miles short of Russia’s Pacific coast. The central state has collapsed, and orders issued from Moscow are unlikely to be followed in the provinces. Instead, in many regions of the country, criminalized elites, protected by armed bands, have seized economic and political control. The political-criminal nexus has supplanted the state, providing many of the services citizens expect from their government—protection of commercial businesses, employment, and mediation in disputes.

The mineral-rich and strategically located Far East of Russia, like so much of Russia, stagnates. Corruption, pervasive crime, and the absence of a level playing field undermine foreign investment and domestic initiative.

The situation, although depressing, is not totally hopeless. Russia is no longer an authoritarian society. The citizens are fed up with their form of “democracy and free markets.” They have repeatedly rejected calls to authoritarianism. They also reject the new authoritarianism of the criminalized elite.

Temporary crackdowns and get-tough measures, Russia’s traditional means of fighting crime, are not the solution. The global spread of Russia’s criminal economy provides opportunities as well as costs. Because so much of Russia’s wealth now lies overseas, foreign countries can act against the criminal wealth that is housed in their countries.

Much can be learned from New York’s efforts to remove the stranglehold over trash collection. One noted Kremlinologist once said “New York is Moscow with money.” Today the reverse might be true. Cosa Nostra’s monopoly of trash collection in New York ended when Mayor Giuliani, a former federal organized crime prosecutor, assumed office with the goal of wresting trash collection from the hands of the mafia. Courageous prosecutors and willing business competitors were needed to break the back of the mafia. But when forty years of intimidation of customers and businesses ended, the financial gains for business and citizens were enormous. The results were like “a giant tax break.”
Russia is not there yet there but may be on the verge of mustering the political will to end the criminal stranglehold on its economy. It cannot do it alone. If Russia in concert with the world fails to act, the future looks grim. Without foreign investment or the return of Russia's stolen billions, the capitalist economy will die before it is born. Moscow will remain Disneyland, an island of capitalism surrounded by a sea of decaying socialism.

NOTES