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# Soviet legacies, organized crime, and economic gangsterism: Russia, 1995–2010

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## ABSTRACT

In countries like Russia, where legal institutions providing political accountability and protection of property rights are weak, some elite actors accept the use of violence as a tool in political and economic competition. The intensity of this violent exposure may vary depending on the position the province had had in the Soviet administrative hierarchy. The higher the province's position before 1991, the greater the intensity of business violence one is likely to observe there in post-communist times, because the Soviet collapse left a more gaping power vacuum and lack of working informal rules in regions with limited presence of traditional criminal organizations. Post-Soviet entrepreneurs also often find it worthwhile to run for office or financially back certain candidates in order to secure a privileged status and the ability to interpret the law in their favor. Businessmen-candidates themselves and their financial backers behind the scenes may become exposed to competitive pressures resulting in violence during election years, because their competitors may find it hard to secure their position in power through the existing legal or informal non-violent means. To test whether Soviet legacies and Provincial elections indeed cause spikes in commerce-motivated violence, this project relies on an original dataset of more than 6000 attacks involving business interests in 74 regions of Russia, in 1991–2010. The results show that only legislative elections cause increases in violence while there is no firm evidence that executive polls have a similar effect.

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## 1. Introduction

### 1.1. Motivation

In late October 2015 many of the newspapers published headlines painfully familiar to those who lived in Russia during the 1990s. A typical one read, “Krasnogorsk Officials Brutally Murdered during Office Hours.” While these events were relatively common in the mid-1990s, to the modern reader, these headlines read somewhat unusual.

On the morning of October 19, 2015, a notable businessman known to locals as the “Master of Krasnogorsk” came to the Krasnogorsk City Hall, where the deputy mayor and the leading engineer of local electric networks were holding their regular office hours. The businessman, Amiran Georgadze, started an aggressively loud discussion with the officials. He demanded they call the mayor of Krasnogorsk to the office as well. Soon after, however, the argument was interrupted by gun shots killing both the deputy mayor and the lead engineer. A visitor to the City Hall witnessed the argument, but was expelled from the office by the shooter before he fired. Another seemingly random person at the crime scene was Georgadze's driver and

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bodyguard. The bodyguard brought his employer's bag from the car immediately before the shootout, but claimed later he was not aware the bag contained guns.

At first glance, the entire incident appeared to be a random attack. However, very few of those who commented on the issue later thought of it as an accidental occurrence. On the contrary, later analysis of the murders emphasized the structural nature of factors likely responsible for this gruesome crime. Various commentators found the motive behind the shootings to be economic conflicts Georgadze had with the local city administration, despite their long history of partnership (Kashin, 2015).

### 1.2. Refining the research question

The causes of the Krasnogorsk shooting are likely to be found in the economic and political spheres. The circle of people involved or likely to be affected by such violence is relatively narrow, and not many people outside of this circle are fully aware of the extent of violence, but it is still vitally important to understand why business-related violence occurs. Identifying the causes of economic violence can provide valuable insight into the mechanisms behind state's strength, which enables it to control alternative power players, such as organized criminal groups.

In his discussion of the Krasnogorsk shooting, Kashin observed how difficult it is to describe the tragedy in conventional terms used in criminal reporting. There is a reason for this difficulty: the Krasnogorsk shooting is a battle within the Russian economic elite. It is the kind of battle that happens in a war, not just as an isolated incident of murder.

Business-related violence are physical attacks of any kind involving profit-motivated actors. These may include murders, assaults, shootings, arson, or other events leading to grave bodily harm, death, or deliberate physical destruction of property. Throughout this text, the terms “business-related violence,” “economic violence,” “commerce-motivated,” or “profit-motivated violence” are used interchangeably.

The main questions this article poses are not only why economic violence happens, but also how it becomes possible in a modern state equipped with a sophisticated justice system? What kind of institutional environment produces a state relatively effective at street crime control, but plagued by war-like violence within its economic elites? What contributing characteristics does its politico-economic and justice systems possess? Such a country is likely to have a system of institutions favoring the elite and protecting it from legal prosecution initiated by almost anyone with lower social and economic status. At the same time, it becomes more difficult to settle disputes and enforce law within the privileged elite itself, because the justice system may not be equipped to do that. This is especially true in countries with non-democratic political regimes or limited access orders (North et al., 2009).

### 1.3. Why Russia?

Russia is an example of a state characterized by a selective application of law (Ledeneva, 2013; Hendley, 2011; Hendley and Peter Murrell, 2015; Firestone, 2010), but it is by no means the only country in the world facing such challenges. Many other states, including some mature democracies, have gone through periods in their history when violence played a prominent role in economy and politics. The city of Chicago's political culture, for example, is deeply rooted in the violent struggles for market share and political influence among the local economic elites that emerged prominently during the “Circulation Wars” of the 1910s. These struggles continued into the Prohibition-era mafia activities (Mills, 1997).

In post-communist Russia, on the contrary, entrepreneurs have faced tremendous challenges. Many are targets of attacks and, according to the empirical data collected for this project, about 40 percent of those attacked were murdered. In 1991–2010, the intensity of business-related violence varied greatly across different provinces and over time, giving a researcher an opportunity to exploit this variation.

### 1.4. Main hypotheses

This paper tests two sets of hypotheses. The first approaches violence as a tool of economic competition and expects it to be the most likely in regions with organized criminal groups competing for limited economic resources. This is especially true when the groups have incompatible value systems and widely differing informal rules that emerged long before the Soviet Union collapsed as a result of unequal investments in economic development.

The second hypothesis posits that regions with such composition of local players are more prone to outbreaks of economic violence in time close to elections, especially when such shows of force do not damage elites' reputation in the eyes of the federal government.

A concern about the government in Moscow is linked to the fact that it has the power to expropriate local elites' property and initiate criminal proceedings against them. In other words, both hypotheses assert economic competition resulting in violence is more likely in regions with strong, but corrupt state, because such a state is not as dangerous for perpetrators of violent acts, but still strong enough to serve as a tool of wealth extraction.

In terms of space, locations with a strong but corrupt state attract power players from regions with a weak state, where resources to plunder tend to be more limited as those provinces lag in economic development and are poor. Moscow and St. Petersburg can serve as an example of the former, while Altai Republic is an example of the latter. Areas where anarchy

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