

The Government and Bandits: Similarity and Difference in Theory and in Russian Practice

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Liberal reforms of the 1990s in Russia were accompanied by the appearance and active growth of illegal violent structures. From a moral point of view, we can judge people who chose this way, but from an analytical and scientific point of view, we have to admit that illegal power structures played a positive role in the development of the market economy by creating conditions of compliance with the contract law in situations when the government was unable to regulate economic processes. In 2000, years of illegal power structures practically disappeared. What brought them back to life and what were the reasons for their disappearance? Does their disappearance mean the victory of the government as a warrantor of law and order and of contract law? What is the evolution of violent entrepreneurs in Russia?

First of all, we'll take a look at theoretical analysis. The issue is not about violence in general but about *the role of power structures in economic processes*. Thus, we are interested not in any bearer of physical violence, but only in such bearer whose actions play an important role in the functioning of the economy. This could be governmental and private structures, which can be divided into legal and illegal structures.

What unites the government and the bandit? It seems they represent different forms of one phenomenon, *violent entrepreneurship (force business)*, the main idea of which is to convert organized power into a source of fixed income by controlling economic agents. The term *violent entrepreneurs* was proposed by Volkov (2002), and his book inspired me to write this article.

1. The Government and Bandits: Theoretical Aspect

For ordinary people, it can be strange to compare the government to bandits. But science has its own approach. In order to understand the role of power entrepreneurs, several statements are principal.

First statement: *Public relations are built on the basis of three resources: (1) power, (2) money, and (3) words*. Physical violence, economic resources, and the ability to put sense into action form the society. Societies vary in the forms of realization of these resources, in mechanisms of its conversion, and in principles of distribution between social groups. In this triad, physical violence plays the main role; and even in modern societies, it represents a relict phenomenon. Voluntary market-based interactions of egoistic people represent the façade of modern societies. This is the biggest mistake which impedes the understanding of the mechanism of market exchange.

The thing is that voluntariness of each transaction is based on the knowledge that if money is fake or scales cheat you, the swindler will be punished and that there is some power which forces compliance with the terms of the transaction. The force of coercion constitutes the rule. Coercion as a potential type of violence, which is applied to the violators of rules, is a necessary element of free market relations.

Second statement: *Under the guise of the fight against criminal groups, the government fights against competitors*. From a functional point of view, they are colleagues because they produce goods of one type. By means of this power resource, they maintain the rules of

interaction. The quality-price ration of this service affects consumer choice. If the Sicilian mafia returned stolen cattle faster and more effectively than the police, peasants would prefer to pay tribute to the mafia than pay taxes to the government. The conclusion is that two principal strategies of the fight against bandits is their total physical destruction or their economic devastation when consumers of power services will vote for the government as the only reliable warrantor of economic life.

But the government will never defeat bandits. *The government can't set rules in an economic area which is not recognized as a legitimate one by the government.* In this way, it gives economic reality to alternative power organizations. If drug trafficking and prostitution are not legalized, then criminal groups will become a functional analogue of the government. Criminal peculiarity does not negate the need of these markets to use physical coercion to maintain the rules. The dry law in the United States ushered in the "golden century" of the American mafia because underground bootlegging needed the power resource for regulating economic processes and for conflict resolution. Criminal business cannot pay taxes to the government, but it does pay tribute to bandits, which from the point of view of purchased services is the same thing. For criminal business, gangster groups are not alternative power partners; they are some kind of shadow government, which sets the code of conduct for this market.

Third statement: Government is not the project of a genius mind. From a historic point of view, *government is only a final point of competitive struggle among those who try by force to provide regular income.*

Government is a condition when only one player is left in a shootout game of the members of the top brass. Rules set by them will be recognized by fair and reasonable people because there is no one from which to choose. Time and regularity of violence form the habit blocking the idea that government and bandits are not different phenomenon. In reality, each bandit becomes the government if he eliminates all competitors

in one specific territory and becomes some kind of exclusive manager of violence, and also if he guarantees to protect the border from attack from the outside. *The government is not the goal of the movement of practicing members of the top brass, it is a logical boundary of their competition and a concentration of the power resource.*

We are talking here about a monopoly—but not in the sense that the government's power functions are all-inclusive. It can share these functions with private organizations, allowing the creation of private police and private security agencies. But the fact that the government controls these organizations means that the government maintains a monopoly on violence.

But if every law is a derivative of violence, then why do people tolerate violence? Isn't it better to live outside the law?

To use the terminology of Thomas Hobbes, *to live outside the law* means to be natural. It also means that your property is your own property until you have the strength to defend it from attacks of people who surround you. In this case, each person is a defender of his or her own things and an invader of another's things, including their life. But individual protection is expensive and not effective. Scale economy is reached if it passes the right of defense to the subject who specializes in physical violence. The most effective solution is the universal defender, one for everybody. This is the government. According to Hobbes, people voluntarily call the monster Leviathan in order to stop "*bellum omnium contra omnes*"—a war of everyone against everyone—the Latin phrase used by Hobbes (1651/1996) to describe the state of nature in *Leviathan* (pp. 88-90). They call him because of their fear of death and because life with the monster is better than death from the neighbor. In this way, transition from the natural condition to the civil is done. Leviathan is a mythical image of the government. Hobbes was mistaken in one thing, however—people did not call a specific monster Leviathan; they created him by improving the forms of relationships with those who had the competitive advantage in using physical strength.

2. Government and Bandits: Soviet and Post-Soviet Practice

Soviet Period (1960-1980)

There were bandits in the USSR who levied tribute to shadow entrepreneurs. But don't confuse them with the bandits who appeared in the end of the 1980s and became a business card of the 1990s.

The bandits from Soviet times came from the criminal world, and this world has its history. Criminals as a real social group with their own laws and hierarchy were formed in the 1930s. The criminal world as a social organization appeared in the conditions of a strong, repressive government; and this fact distinguishes them from the bandits of the 1990s who were the product of a weak government.

The force business in Soviet times was simple; it was blackmail under the slogan "You have to share." But, of course, nobody wants to share. There was no way out, however, because the victims were more afraid of the police than of bandits. They could pay off the bandits. If they went to the police, then it could lead to trials regarding the sources of their income. The thing is that bandits levy tribute from shadow Soviet entrepreneurs. Their business was related to such a thing as "a theft of socialist property" because there was no free market of raw materials and equipment. And these entrepreneurs were afraid of both the police and the bandits.

Regularity of extortion limits its size. The robber who doesn't plan to re-encounter the victim tries to take everything he can, but the bandit who gets a stable income from the shadow entrepreneur learns to suppress his appetite.

The End of the 1980s to the Beginning of the 1990s

At the end of the 1980s, the character and scale of violent business changed. Liberalization of the economy gained momentum, but the weak government was not capable of establishing an effective system of property right protection and enforcement of contracts.

At the same time, in this social sphere, there appeared groups with specific connections to violence—sportsmen and soldier-Afghans. Sport is a game form for cultivating aggression and contention, where physical strength is a factor of the victory. Fighting spirit was locked in a bottle of sports rules like a genie. But this bottle burst together with the collapse of the USSR when the previous financing system of sport also collapsed. Veterans of the Afghanistan war were also in a very bad position. After the withdrawal of Soviet troops from Afghanistan in 1989, the society didn't even thank them.

Sportsmen, soldier-Afghans, and other Russians tried to adapt to the new conditions. The thing that sportsmen and Afghans could do better than other people was to be tolerant of violence (violence as a way of solving problems), endure the pain, and deal with weapons. Their main strength was their loyal attitude to violence and moral superiority over those who were not able to defend themselves. These abilities were easily converted into money during the emergence of entrepreneurship and the decay of the government. The loss of the government's monopoly on violence returned the country to its "natural condition"; expulsion of Leviathan meant uncontrolled violence. During this time, people were seduced with private business. There appeared to be more resources available for the taking. Formally, they could find protection from the government, but the weak government could not defend them. In these conditions, the flywheel of extortion gained momentum, and this became a significant social phenomenon.

It is notable that if racketeers from Soviet times were from a criminal environment, the racketeers from the 1990s had a wider social base—it was a war between criminals and bandits of noncriminal origin for the division of areas of influence.

Withdrawal of the troops from Afghanistan, the collapse of the sports system, moral and material disparagement of law enforcement agencies, low legitimacy of first entrepreneurs, inadequacy of laws which look into the future—all of this led to a massive movement

of racketeers. The same situation happened with the American mafia during the “golden century,” which coincided with the introduction of the “dry law” in the U.S. in 1919. In the beginning of the 20th century, Sicilian mafia members ran to the U.S., escaping from the repressions of the fascist regime of Mussolini. In 1919, the “dry law” provoked underground business and its force support, which led to the golden age of the mafia.

This racketeer-extorter did not just collect tribute; he also provided security for the firm against potential danger. The bandit was at the same time the defender of “his own” company and the source of danger for others. The racketeer is a bandit who sells his own abstention from violence and is able to defend those under the racketeer’s protection from other bandits’ violence. The protection racket was the simplest form of the force entrepreneurship.

1992 to 1995

Competition between bandits led to their growth and their becoming stronger financially. Organized criminal groups with military discipline inside and established contacts outside, including the contacts with governmental agencies, replaced unorganized bands. Organized criminal groups were able to solve difficult problems faster; they didn’t just provide security from other bandits.

They found such an opportunity in business development. The scale of transactions grew, the number of counterparts grew, schemes became more complicated, and geography of contacts expanded. As a result, risks are growing. But the government was not able to keep pace with the business needs in production of trust between the counterparts. And here the thing is not about the trust in personal decency of partners but about the trust in actions of formal institutions, which ensure property rights and compliance with contracts. Of course, the government was trying to do something in this direction—in 1991, arbitration was created—but it takes a lot of time, and it is useless to sue in economic disputes.

So business needs in protection of property rights and compliance with contracts from bandits, whose financial and organizational possibilities became excessive for simple security, began to meet. Further, the functional complication of bandits’ relations with their “own” companies began to occur. They did not just collect tributes; they created opportunities for “their” firms for economic growth, which included the search of areas for investments, inspection of counterparts, knocking out debts, and many other things. This was a new form of business force—a *power partnership*. Bandits replaced arbitration, insurance companies, and the police. The ineffectiveness of such a replacement was obvious, but during that time, this system was more effective than the real Russian government.

Companies that did not have power partners were turning to bandits asking them to become warrantees of the deal or to solve this or that problem. *Power agency* became a separate form of activity. Power agency, unlike power partnership, which had permanent relations with economic subjects, was solving specific business problems on an irregular basis.

It is important to note that simple security (or racketeers) could exist without connection with authorities. But solving transactional business problems requires contact with governmental structures, and this circumstance gave certain advantages to the bandits of noncriminal origin. The criminal world existed by its own laws, among which there was a ban on cooperation with the government. And also for authorities, it was risky to cooperate with the criminals. So, bandits of noncriminal origin became known as *authorities-bandits*.

The reputation of bandits was protected because it was the source of income. But before generating income, this reputation required significant investments in the form of effective violent actions. Bandits-agents believed that their received payment was a price for their moral superiority over businessmen, whose words could not serve as a foundation for transactions. They would be very upset if they knew that this

was a payment for specific work, which functionally replaced the weak government.

The main result was functional diversity of force business, three forms of which became security, partnership, and agency.

But this functional diversity was keeping other dangers hidden from the bandits. Serious competitors appeared in the face of private security agencies. The reorganization of the KGB and the less acute reform of the Ministry of Internal Affairs led to significant outflow of personnel. Yesterday's officers, who were professional members of the top brass, had to find a new place in life because of salary reductions, decline in displaced prestige, and planned job cuts. And, of course, not all of them wanted to requalify into house managers. These officers decided to offer their private security services to the market, which received legal status after the law regarding private detective and security activities was approved in 1992.

It is possible that the authors of this law about private security agencies just wanted to create a niche in the labor market for fired members of the top brass. But decline in organized criminality became an unexpected consequence of this step.

At this juncture, private security agencies took the role of power partners, which previously belonged to the bandits. Business liked this new partnership more. Bandits were taking 10 to 30% of the profit, while private security agencies worked under a contract with fixed prices for various types of services. They had licences, paid taxes, and all this was raising their status as business partners. Also, they had access to databases that were denied to bandits. In the competition for price and quality of services, bandits were losing to these legal power entrepreneurs.

Of course, criminal business (e.g., drugs, prostitution, gambling) did not have a choice. Their only possible power partners were organized criminal groups.

It wasn't the governmental repressions that started to force out the bandits from the market of violence; it was the inefficiency of public services and competition of the private security agencies that now had legal status. All this led to the fact that a lot of organized criminal groups started to get licenses and to act as private security agencies.

At the end of the 1980s and the beginning of the 1990s, struggle for the place of power in the market of violence was between bandits of noncriminal origin and bandit-criminals. Starting in 1993, private security agencies had competitive advantage. The functional complication of the role of violence and the transition from security to power partnership created an atmosphere wherein the displaced officers, having professional competitive advantage, started to press the bandits.

1996 to 2000

In the middle of the 1990s, bandits started to capitalize their income by buying and establishing enterprises. So, in the middle of the 1990s, a new period of force entrepreneurship started. It was an active legalization of bandits—their conversion to businessmen. If in the past entrepreneurs were sources of income, now they became business partners. Partnership extinguished the sense of superiority that bandits felt over businessmen.

There were objective reasons for the conversion of bandits into the local business-elite. Organized criminal groups saved a lot of money, which they had to manage with maximum benefit. By providing economic transactions, they gained experience in solving business problems; they entered into a business world network. But the main thing was the changes that were happening in the country. The government started to revive. Putin, after becoming president, voiced the idea of bringing order, regaining the monopoly on violence. Law enforcement agencies became more active, and repressions against organized criminal groups were expanding. In these conditions, the only possible variant in the future for bandits was to go into legal business or to emigrate with all of their money.

Also, the government started to seriously improve economic legislation. Prestige and effectiveness of arbitration were growing. Loyalty to the market ideals of the 1990s was shown in the fact that if a businessman found a legislative “hole” and used it to his benefit, the government patched the “hole” without dealing with this businessman, so the government adjusted laws all the time by testing them in practice.

Institutional improvements and the growing effectiveness of state agencies led to a basis of trust between market counterparts. Power businessmen as producers and sellers of trust, limited by the scale of the deal, lost their field of activity.

So, on the one hand, business attracted bandits with the possibility of capitalization of incomes and avoidance of repressions. On the other hand, state successes in institutional construction were reducing the field of activity for power businessmen. Also, the market share, served by bandits, was reduced as the number of private security agencies grew. The market of violence was becoming very competitive.

Transition to regional business-elite became the typical completion of the career arc for the top members of the force business. The lower level members joined non-organized criminality.

Changes also started to occur in politics. In order to protect their investments into business, bandits decided to go into politics, and this changed the nature of business, politics, and criminality by enriching these areas with new functional and subcultural content.

The 2000s

These years were the years of strengthening the statehood. The government pressed the competitors in the face of private power businessmen through various forms of violent actions—repressions, justice, and taxes—and this can be interpreted as a victory of the government over bandits, the main competitors in the field

of violence. Bandits remained a symbol of the 1990s.

But bandits were pressured not by the government as a machine of impersonal maintenance of formal standards, but by the army of state representatives who privately disposed of governmental power resources. Bureaucrats, officers, and judges won out over the bandits because they made the administrative and power resources of the government negotiable. Of course, these state representatives complied with formal standards, but they interpreted these standards according to clients’ interests—not for free, of course.

The potential of current officers to contribute to business development was incomparable to what the bandits offered. First, bandits were pressured by former members of the top brass who created private security agencies and offered business services which were cheaper and of higher quality than bandits’ services. But “formers” used connections with their colleagues who were still working; they were not as strong in solving business problems. The stronger the state machinery was, the more the “formers” were losing. Business understood that times changed and that the government had administrative and power resources concentrated in its hands. The stronger the government was, the more the attractiveness of state agencies as “shelters” (*krysha*), matching the profile and scale of business, was growing.

The concept of *shelter* has a great history. First it was a professional slang of secret service agents: *shelter* meant the formal protection of a secret service agent. In the 1990s, former officers who joined the private force business enriched the language of gangsters with this concept. Shelter started to mean the power protection of business by private legal or illegal structures. Shelter and the government were different in nature. In the 2000s, the concept of shelter was enriched with informal cooperation with policemen and employees of state security. So, by enriching the connotation, the term *shelter* transitioned from the slang of security service agents to the slang of the

gangsters, and then it returned to security service agents, equating them with bandits.

In the violence market, where power converts into money by controlling economic agents, gangsters were replaced by former policemen, and that gave way to the current employees of state agencies. These current employees do not do anything wrong—they find stolen things, provide security, return debts, etc.—but they do not do it for all the taxpayers, they only do it for private clients. They create law and order but not for society; rather, it is all for the private good.

The dynamics of typical force businessmen, starting with Soviet times, are the following: criminals with tattoos on their bodies, sportsmen with massive gold chains, former officers with private security agency licenses, and working officers with service certificates.

So, gangsters, after doing their job, have faded into the past. Some of them were repressed, some were seduced with high governmental positions, and some entered into the business-elite. Despite bloody details of those times, bandits did a good deed—they provided protection of property rights and compliance with contracts, and this allowed the market to develop in the 1990s. These were informal institutes, but there couldn't be others in that situation of actual loss of statehood. Bandits are the product of a weak government. In the 2000s, the government revived, and gangsters lost their positions in the economy. As mentioned above, bandits lost out to state representatives, who disposed of administrative and power resources of the government for personal purposes, and this allowed them to become force businessmen with superiority over gangsters in solving business problems. New force entrepreneurs, who were previously bandits, ensure the work of informal institutes of economic regulation. But if gangsters filled the vacuum of formal institutes, their *shiftmen* form informal institutes by relying on powerful coercive apparatuses.

3. Conclusion

According to the data published in the *Summa Ideologii* (2008), law enforcement agencies give way only to federal authorities in their degree of corruption. It is important to note that the businessmen express the most critical evaluation of the activities of law enforcement agencies: 50% of entrepreneurs believe that the law enforcement agencies are corrupt. For comparison, only 16.7 and 20% of the representatives of legislative and Executive authorities, respectively, share the view of corruption in law enforcement bodies (p. 155).

What does it mean in terms of the relationship between bandits and the government?

Policemen and employees of state security became the “number one” force entrepreneurs. Power state structures, engaged in the profitable business of acting as *protection rackets* due to limited resources, are less distracted by the provision of public goods as security and law and order. In the beginning of the 2000s, the highest share of policemen earning extra money was in the departments whose function was to combat organized crime (Kosals, Kolennikova, Ryvkina, Simagin, Wilson, 2008).

The gangster turns into an ideally typical government employee if he maintains justice and guarantees order, first of all, for everybody, and not just for particular solvent clients and, secondly, on the basis of formal procedures and not of personal sympathy. Then, the collective illusion about the government as a useful patron, whose violence is justified by good intentions, is inevitably created, although their intentions are the same as of the bandits—at the expense of power resources to organize the economic process in such a way that a regular income could be provided to the political elite.

And vice versa, if state representatives dispose of power resources as private goods, allowing bargaining around decisions and practices of law enforcement, the government would turn into the bandit while saving symbols and organizational forms.

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