

AN OFFER YOU CAN'T REFUSE: PRIVATE SECURITY AND STATE PROTECTION IN  
POST-SOVIET RUSSIA

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## **ABSTRACT**

DAWES COOKE: An Offer You Can't Refuse: Private Security and State Protection in Post-Soviet Russia  
(Under the direction of Robert Jenkins)

It is typically the responsibility of governments to safeguard the rights, property, and physical safety of its citizens. However, in Russia, as in many other countries, private organizations exist which operate as profitable businesses by offering these same protections to paying clients. Such organizations generally exist in a niche created by a government's inability or unwillingness to provide such protections and to monopolize the provision of them. Yeltsin's reforms in the aftermath of the Soviet collapse often left small businesses unprotected, leading to a rapid growth in the private security industry. However, as the central government strengthened and the economy improved under Putin, the industry continued to grow at a rapid pace thanks to adaptation by the private security industry to changes in demand for protection as well as cooption methods utilized by the state security structures.

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## INTRODUCTION

### STATE PROTECTION AND PRIVATE SECURITY IN RUSSIA

As I exited the Primorskaya Metro Station in Saint Petersburg one summer day, I noticed a police car parked along the row of kiosks lining the square in front of the station. Two bored policemen leaned against the car and casually scanned the crowd coming and going from the metro. Upon closer inspection, however, their uniforms lacked the Ministry of Internal Affairs badges that Russian policemen typically wore. In their places were badges displaying a shield emblem with the words “Okhrannaya Firma ‘Titan’” emblazoned on top – “Protection Firm ‘Titan.’” The symbol matched the sticker that was affixed to the front window or door of many shops, businesses, and apartment buildings in the area. The two private security guards were employees of the private protection enterprise “Titan,” which specializes in physical security for businesses, apartments, cargo, and individuals (*Okhrannaya Firma Titan*, 2010). The two guards themselves, however, were not protecting a private entity. Instead, they were contributing to public security by watching the crowd around the metro station for anything suspicious. The questions that were raised by this situation, such as why the police were not watching the metro station, and why a private company was obliged to do it, led directly to the questions asked in this paper.

Legal private security firms such as Titan were allowed in a 1992 law passed by the Russian Duma. However, this law did not create the private security industry, but introduced legal organizations into it. The private security industry, like any other industry, needs both supply and demand in order to thrive. Demand for private security increases when people

feel that the government is not providing sufficient protection. Supply of security is affected partially by the availability of personnel, but primarily by the willingness of the government to allow the de-monopolization of its security contract with its citizens and its ability to limit private providers of security. Therefore, private security serves as an effective case study through which to examine state's willingness and ability to protect its citizens and to demand the loyalty of domestic actors.

This paper consists of three chapters. The first two chapters correspond largely with Boris Yeltsin's time as the President of the Russian Federation. In the first chapter, privatization, liberalization, and post-Communist state-building theory will serve as the starting point from which Russia's political and economic transformation between 1991 and 1995 will be examined. In this period, Yeltsin struggled to turn Russia into a democratic, free-market system while maintaining his own position against state and non-state actors that fought for political influence. Weak property rights, unreliable court systems, faltering law enforcement bodies, and lax regulation of the private security industry during this period allowed organized crime to capture a large share of the private security market. The second chapter covers the period from 1995 until the end of Yeltsin's term in 1999. During this time, Yeltsin laid the political framework for a strong state system in which the President controlled national-level policymaking, although his position was not strong enough for him to take full advantage of this framework. As an illustration of the increasing strength of the government, a set of 1995 regulation reforms transformed legal private security enterprises into entities capable of competing with criminal organizations for clients, as well as laid the framework for increasing state control over the private protection industry. The chapter will end with a comparison of the state, legal private security firms, and criminal organizations as protection providers near the end of the 1990s.

The third chapter corresponds with Vladimir Putin's first Presidential term. His reforms centralized the Russian government's authority, improved the reliability of state protection apparatuses, and reduced tolerance for competition with the state government. Although this should theoretically have harmed the private protection industry, it will be argued that, by instituting soft power controls over the industry, the state was able to transform legal private protection companies from competitors into reserves and allies. This relationship in turn allowed the private security industry to thrive in the 2000s. The chapter will end with an examination of various significant events during Putin's first term and their effects on the private security industry.



## **CHAPTER I**

### **COLLAPSE AND REFORM**

#### **Introduction**

The subject of this chapter is the liberalization of the state between 1991 and 1995, and the extent to which liberalization weakened the Russian state and allowed a private security industry to thrive. The political and economic upheavals that accompanied the collapse of the Soviet Union in 1991 resulted in nearly a decade of state decentralization, in which most of the former Soviet State's functions were de-monopolized and the power of the new Russian state was eclipsed by that of private actors. Although the transition from this period began in the latter years of Boris Yeltsin's presidency, it was under Vladimir Putin's presidency that the predominance of state authority over the private sector was reasserted.

These trends are well represented in the short history of private security in Russia. The creation of legal private security was a direct result of the downsizing of the state, and private security firms offered many services that are often considered to be within the state's domain. The existence of private security organizations raises two important questions, which will be addressed within the course of this chapter. The first of these is, where does demand come from? It will be taken for granted that protection, in all of its forms, is a service that people genuinely desire. However, the reason why the government did not adequately offer these services, thus allowing private actors to enter the market, will first be determined. The second question is, why did the government allow private actors to supply protection, normally a central activity of the state? Although the privatization of security outwardly resembles the privatization of other aspects of the former Soviet state, it is these two considerations that set private security apart.

## **Privatization, Reform, and the Post-Communist State**

The formal dissolution of the Soviet Union in 1991 was expected by many in the West to be the transition point at which the former communist countries moved from centralized authoritarian states with planned economies to Western-style free-market democracies. However, this assumption overlooked the fact that Western countries had reached their current models over the course of centuries, whereas former communist states were expected to do so in a matter of years and amid the ruins of their former communist governments.

Anna Grzymala-Busse and Pauline Jones Luong (2002) urge a re-conception of what is to be expected in the transition from communism. They argue that traditional scholarship has concentrated on political, economic, and civil transition, and ignored the process of state building itself. The construction of post-communist states from their communist predecessors is different from traditional state-building in that the process is rapid (though in many cases incomplete); it is dominated by a number of actors of various origin and wielding various sources of power; and it is influenced by international groups that often have an ideal societal model that they wish to see implemented. The process of post-communist state formation, they say, is “elite competition over the authority<sup>1</sup> to create the structural framework through which policies are made and enforced” (Grzymala-Busse and Jones Luong, 2002: 531). The state that results from the post-communist transition is a result of the exertions of a number of actors, state and non-state, formal and informal, and each controlling different and often unequal sources of power (Grzymala-Busse and Jones Luong, 2002, 531). The forces struggling for authority in Russia following the Soviet collapse will be identified. The arena for this competition was created by a combination of Boris Yeltsin’s political and economic reforms, in particular the privatization efforts.

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<sup>1</sup> The term “authority,” when used throughout this paper, will refer to its usage in this definition.

## *Privatization*

During the first half of the twentieth century, mass disillusionment in the benefits of capitalism and free enterprise caused by two world wars and a global depression resulted in a number of nationalization efforts. If the first half of the twentieth century can be associated with nationalization, then the last part can be associated with privatization. William Megginson and Jeffry Netter argue that the most important modern privatization effort is that undertaken by Margaret Thatcher's Conservative government in the United Kingdom in the 1980s, during which a number of large, inefficient, state-run industries were sold to private controllers and during which the term "privatization" came into existence to describe what was previously referred to as "denationalization" (Megginson and Netter, 2003: 31). However, the most dramatic privatization efforts by far accompanied the liberalization of the previously state-controlled communist economies, particularly in Eastern Europe and the Soviet Union

Megginson and Netter suggest a number of reasons why nationalization, or in some cases the upholding of a pre-existing state monopoly, is attractive. It is often seen as the government's responsibility to own, or at least regulate, natural monopolies, to reduce externalities such as pollution, and to provide public goods such as public security, transportation, utilities, or education (Megginson and Netter, 2003: 29). Additionally, state controlled firms were at one point thought to be more efficient and to provide better for society as a whole. However, this opinion has proved not to be true and, in fact, the desire to solve the inefficiency problems of state-controlled enterprises was one of the driving reasons behind the privatization efforts in the United Kingdom in the 1980s and in the post-communist states in the 1990s. It seems that state control negates many of the factors that induce private firms to operate efficiently. With the assurance that the state will support the firm as needed, the firm is not subject to budget discipline and does not have an incentive to

compete in the market by producing superior-quality goods and services at lower costs. By exposing a firm to market forces, it must either become competitive or shut down and be replaced by a firm that will be competitive (Megginson and Netter, 2003: 30).

Privatization movements tend to happen for these reasons. The desire to combat inefficiency is a major one. However, ideological reasons may also produce a shift toward a free market, as was the case with Thatcher's Conservative government. Additionally, the sale of state assets produces a great, although one-time, amount of revenue (Megginson and Netter, 2003: 32).

If common motives for privatization can be identified, however, little else is similar between the Western privatization efforts and the post-Communist movements. In the United Kingdom, as well as in other countries that privatized industries in the twentieth century such as Germany and Chile, privatized firms went on to occupy a position in a market economy that was already well-defined, and in which they could be subjected to preexisting market forces. In transition economies, however, no such markets existed. Privatization took place while the market into which these firms would be released was still under construction (Hare and Muravyev, 2003: 347). Some exceptions exist – for example, criminal or even small legal markets existed alongside the state-controlled Soviet economy - but they will be discussed in detail later, after the overall framework of post-Communist privatization is established.

### *Political Reform*

For many post-Communist states, the difficulty of attempting an economic transition is compounded by the uncertainty of undergoing a simultaneous political transition. Russia in particular is a prime example. During the early 1990s, two forces were at work transforming Russia. The first of these was Boris Yeltsin's political reforms – that is,

restructuring the state. The first step was to dismantle the immense Soviet power structure. During the course of his reforms Yeltsin banned the Communist party, and subordinated and eventually abolished the Soviet Congress of People's Deputies and the Soviet presidency, effectively eliminating the institutionalized sources of state strength. The next step would have been to build a new democratic Russian state. However, Michael McFaul argues that Yeltsin missed his opportunity to do this. He forwent the construction of new state-strengthening institutions such as a new constitution, the creation of a new political party, and a call of new national elections, likely over the fear that these new democratic institutions would oust him and his reformers before the reforms could be completed (McFaul 1998: 195).

Yeltsin instead opted to concentrate first on economic reforms, the second transforming force at work in Russia at that time. In order to transition from a planned economy to a market economy, old Soviet market controls had to be lifted and the state had to relinquish its control over the majority of enterprises. The former was accomplished through a number of policies, including the price liberalization, and the latter was accomplished through privatization. Most attention was paid during this time to medium and large industrial enterprises, the firms that had formed the backbone of the late Soviet economy. However, despite efforts to create a wide base of shareholders, control of these firms often went to the small number of elites who, at the time of the Soviet collapse, were in positions to consolidate control over such enterprises (Hare and Muravyev, 2003: 347-349). The democratic institutions of the transitioning Russian state were not strong enough to resist the influence of these elites. The result was a system that, in name, was a free market, but closely resembled a state-controlled market in some of its negative aspects. The Russian oligarchs, as the directors of these large industries came to be called, were able to protect their firms from competition and closure by obtaining political privileges, such as tax

exemption or import and export permits, rather than direct cash subsidies. In addition, the management of these firms largely consisted of the same people who had managed them during Soviet times, and who had little understanding of how to run a competitive, profitable company (Rutland, 1997). Because the market forces that would have closed underperforming firms were weak in the new Russian economy in the first place and because many of the largest underperforming firms were protected by their owners from the market forces that did exist, the economy stagnated.

Yeltsin had experienced little resistance from the Russian parliament in disbanding the former Soviet institutions and ministries and in lifting controls over the economy. However, he began to face opposition in implementing measures to rebuild the economy, such as privatization or attempting to raise taxes. His attempts to implement drastic stabilization or reform measures were often foiled by the parliament, which backed a more modest plan, and in December, 1992, the parliament forced Yeltsin's Prime Minister, Yegor Gaidar, to resign (Rutland, 1997). Facing an impasse concerning the adoption of a new Constitution in 1993, Yeltsin dissolved the parliament in a dramatic series of events resulting in the siege of the White House in October of that year. Popular support for Yeltsin's new Constitution led to its approval in December, granting extensive powers to the executive branch and tipping the balance of power in the national government away from the parliament and toward the President (Willerton, 1997). This shift of power marked a major step toward the supremacy of the Russian Presidency and, by association, a first step toward the strengthening of the Russian state as a whole.

### *The Post-Communist Russian State*

Now that the setting has been set in which actors were competing for authority in Russia after 1993, the actors themselves will be identified. First it will be made clear who

was *not* competing. Yeltsin took the vital first step to state transformation of abolishing the old Soviet sources of power, particularly the Communist Party, so the previous formal power structures were not competing. The 1993 Constitution, as well as the President's show of strength in overpowering the parliament to see it passed, strengthened the former in relation to the latter and, although the parliament was not powerless after 1993, its ability to block the President's policies was weakened. Additionally, as Grzymala-Busse and Jones Luong argue, the division between Soviet state and Soviet society was blurred compared to the division of state and society in Eastern European communist states. This means that there was little room for civil society to form its own organizations independent of the state. When the state collapsed, then, representatives of civil society were not in a position to compete for authority (Grzymala-Busse and Jones Luong, 2002).

However, other groups were in a position to assert their authority. Yeltsin and his reforming government were clearly competitors for a voice in policy-making. Additionally, although the former communist institutions did not survive, individual elites often took advantage of their power resources to translate their old Soviet power into new Russian power. Additionally, many opportunistic individuals took advantage of privatization and become the oligarchs, who also wielded great sources of economic power in their competition for authority. International groups such as World Bank and various Western governments, although generally benevolent, also competed in attempting to shape the new Russian state. The state of Russian politics during the 1990s, then, was not a result of the successes or failures of Yeltsin and his supporters, but of the combined exertions of every actor or group of actors that had a say in the policy making process.

### *Other Considerations*

Federico Varese suggests that the lack of property rights in Russia is also a major source of problems for the economy. In a simplified world, he argues, “an individual has a ‘natural control’ over an asset and aspires to consume or exchange it, and keep the income flow (profit) it generates” (Varese, 2001: 23). An individual’s ability to enjoy the benefits of his property is directly related to the security of that property, which in turn is a product of the ability or desire by others to relieve him of that property. The essence of protection, then, is to ensure that an individual is not deprived of his property. This role has traditionally gone to the state, and the ideal protective state is one that protects an individual’s property not just against seizure by others but also by the state itself. In order for property rights to be effective, the state must not only protect against seizure, but also provide regulations that ensure that the owner can make use of his property and implement a criminal penalty that will deter attempts at theft (Varese, 2001: 23).

The Soviet state, as should not come as a surprise for a socialist state, did not have a strong tradition of individual property rights. In the new Russian state, individual property rights remained a weak area. Varese argues that this weakness was the result of two causes. The first of these was that the vast majority of legal actors – lawyers, judges, and state officials – had been trained in a system that did not reward independent thinking and did not recognize individual property. Although the official policy toward private property changed after 1991, the attitude of the legal branch of government largely did not. The second reason was that during the formation of the new Russian state, little emphasis was put on property rights because there was not a strong lobby for individual property rights, and there was not a strong lobby for mass individual property rights simply because there



was not a mass of property owners.<sup>2</sup> This shortcoming was a product of a socialist system that frowned upon the concept of individual property ownership. The property rights that were provided strongly favored those who were in a position to argue for them – primarily, those who already owned or at least controlled large amounts of property. Statistics of firm ownership tend to reflect this legal bias. Varese notes that, in 1994, it was a common trend for the manager of a privatized firm to maintain ownership and control of the firm between himself and a small group of trusted shareholders and to direct the firm with little regard to the desires of minor shareholders (Varese, 2001: 28-33).

Although it seems that the powerful were able to protect themselves in the early 1990s through the manipulation of state policy or of those enforcing it, the state was either unable or unwilling to provide property protection to society as a whole. It was this disparity that fueled the market for security organizations that were capable of protecting, for a fee, not just the physical property and body of a client but his property rights and security in doing business.

### **Privatized Security**

The privatization of security in Russia resembled the privatization of other aspects of the former state-controlled society in that what was once the monopoly of the state was now open to the private sector. Although security during the Soviet era was not an economic asset, its de-monopolization produced profit-seeking firms that are similar to any other service-oriented firm.

However, the privatization of security differed from other privatization efforts in a number of ways. The first of these was that security, unlike other industries, was privatized into a market in which market forces were already strong. With varying degrees of legality,

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<sup>2</sup> Stefan Hedlund suggests that the concept of property rights itself was “seriously underdeveloped” in Russian society, having little precedence in either the Soviet Union or pre-socialist Russia (Hedlund, 2001: 216).

other actors had been competing in the security market since before the fall of Communism. Second, security was not privatized for ideological reasons, but rather as a side effect of political reforms. The original law allowing for the creation of private security companies was designed to mitigate unemployment caused by the downsizing of state security structures for reasons related to the Soviet collapse rather than the de-monopolization of security. Third, security is a sector of society in which the government has a vested interest, and either does not need to or simply should not allow competition due to the risks to overall state security. Finally, security was not privatized in its entirety - the state did not abandon its stake in the security market. Instead, it continued, and continues, to compete with both legitimate and illegitimate organizations in the provision of security.

#### *The Pre-existing Post-Soviet Security Market*

During privatization, most industries were introduced into markets in which competition was new and market forces were not very strong. However, private security predated the de-monopolization of state security. In the final years of the Soviet Union, enterprising groups of people illegally offered their protection services to those who needed it.

Although the Russian state's monopoly on protection was officially broken in 1991, it had been undermined for several years before that by organized criminal groups. During the economic liberalization of the late 1980s, the Soviet state allowed individuals, known as *kooperators*, to open privately-run businesses, which often took the form of small retailers or cafes. As devotedly as the state protected its own property, it did not extend that protection to private enterprises. State police viewed such entrepreneurs as anti-communist and generally refused to protect them against criminal elements (Volkov, 1999).

Extortion existed in the Soviet Union just as it did in any society. A popular extortion habit was for criminals to attempt to identify individuals with a large hidden wealth and then to threaten to turn them in to the state unless they surrendered a portion of their illegal holdings (Volkov, 2002). The emergence of *kooperators* – specifically, the emergence of a number of profitable businesses that did not receive government protection – created an irresistible opportunity for extortion for such criminal groups. Additionally, a new type of criminal group appeared around the same time. Many students, particularly athletes, in the late Soviet period found themselves with fewer opportunities and, in the case of athletes, less funding for sports activities. Some groups of student athletes, taking advantage of their physical abilities and their pre-existing group cohesion and hierarchy, turned their attention to the emerging *kooperators*, and themselves became criminal gangs. These gangs often named themselves after whatever shared trait allowed the first members to bond. For example, the infamous Tambovskaya crime syndicate of Saint Petersburg was started by a group of students from the town of Tambov who were studying in Leningrad at the time. Rather than engage in theft, black market dealings, or outright extortion, as their criminal predecessors did, these new groups – referred to as bandits rather than thieves – engaged the defenseless private businesses in protection rackets (Volkov, 1999).

Vadim Volkov in his book *Violent Entrepreneurs* distinguishes between extortion and protection rackets, saying that “extortion does not occur on a regular basis or within the context of a broader organization in whose name the money is collected, and it does not offer regular or imaginary services in return” (Volkov, 2002: 33). These distinctions between extortion and protection are important for further discussion of private security in general. A further distinction is in the source of the threat from which the victim is being protected. The case of criminal groups uncovering and threatening to expose holders of secret wealth is clearly a case of extortion, as the threat did not imminently exist until it was levied by the

criminal group. The case also satisfies Volkov's definition of extortion. This level of extortion, however, is strictly an illegal activity, and is a large enough departure from the definition of a protection racket to be outside the bounds of this discussion.

A clear-cut case of protection, on the other hand, would be an instance of one protection organization offering to provide for the security of a small business that had experienced trouble from local criminal gangs. The threat that the victim is being protected from is being levied by a third party, the action is recurring, and a genuine service is being provided. Because of this the protection organization's arrangement, while not necessarily legal, is a protection racket that benefits both parties. For an organized comparison of extortion, racketeering, and protection activities, see Table 1.1.

However, the nature of the vast majority of protection deals in the late years of the Soviet Union and the early years of the Russian state were not so clearly beneficial. Protection organizations generally cooperated to share marketplaces and did not fight between themselves for territory or threaten businesses protected by rival organizations. However, every unprotected private business was fair game, and business owners generally had to accept the first protection offer with which were presented or else face consequences. Protection gangs would patrol marketplaces, both reinforcing the sense of security of their own clients and providing a visible reminder of the threat facing other organizations' clients. In this way, a number of protection organizations cooperated to exercise a form of extortion without actually threatening their own clients (Volkov, 2002).

The market, willing or unwilling, for protection organizations exploded following the collapse of the Soviet Union, the growth of the private sector, and the retreat of state protection. This need for protection, as well as the role of criminal protection organizations in fulfilling it, will be discussed in detail in later sections. It suffices to say here that by the time

that legal private security companies appeared in Russia, the saying that “every businessman has to have a roof” was already a truism (Volkov, 2000: 495).

**Table 1.1 – Extortion, Racketeering, and Protection**

<b>Classification</b>	Extortion	Racketeering	Benevolent Racketeering	Genuine Protection
<b>Source of Threat</b>	Protection Group	Protection Group	Protection Group; External	External
<b>Type of Protection Group</b>	Disorganized	Organized	Organized	Organized
<b>Regularity</b>	One-Time	Repeated	Repeated	Repeated
<b>Cost to Client</b>	High	High	Any	Low
<b>Examples</b>	Soviet-Era Extortion Instances, see page 10.	Marketplace Bandits, see page 10.	Mafia Protection of an Illegal Brothel, see page 16; Modern State, see page 16-17.	Post-1995 Private Protection Enterprise, see chapter 2

### *Privatization of State Security*

The privatization of security did not form part of the greater privatization efforts of the Russian state. Rather, it came about as a side effect of political, rather than economic, reforms. The strength of the Soviet Union, both domestically and abroad, rested largely on four institutions. These were the Ministry of Defense, the Ministry of the Interior (which will from here out referred to by its Russian acronym MVD, for *Ministerstvo Vnutrennikh Del*), the Ministry of Foreign Affairs, and the infamous Committee for State Security (or KGB, for *Komitet Gosudarstvennikh Bezopasnosti*). These four organizations, collectively referred to as the *silovye ministerstva*, or “force ministries,” differed from their Western counterparts in that they were largely exempt from answering to civil society, strengthening their status as sources of power within themselves rather than tools of the government. No Soviet leader

could hope to control the state without first courting the force ministries, a lesson which Gorbachev learned during the attempted coup of August 1991 (Volkov, 2002).

The role of the force ministries as a pillar of Soviet strength, however, marked them as a clear target for Yeltsin's political reforms following the fall of the Soviet Union. He divided the departments of the former Soviet KGB into a number of smaller organizations with the explicit purpose of decentralizing and weakening it. By 1993, what was once the KGB had been split into five distinct services, four of which were permitted to retain armed units and to carry out law enforcement work. This right was also extended to the MVD (which survived the Soviet collapse), the Tax Police, and the Federal Customs Service, bringing the number of groups with the right to armed enforcement from three, as in the Soviet era, to seven. Many of these agencies had overlapping duties. For example, between the MVD and the FSB<sup>3</sup>, four separate directorates were tasked with fighting the same type of criminal activity. This forced competition between organizations weakened the force structures as a whole, as organizations often refused to share intelligence, failed to cooperate, and even undermined each other (Volkov, 2002).

The liberalization of politics as a whole and the fragmentation of the security structures greatly decreased the prestige of state security professions. At the same time, the ailing state budget and rapid inflation reduced wages for these professions. Largely for these reasons, related to the end of the Soviet Union, over 20,000 KGB officers left state service either voluntarily or due to job cuts between September 1991 and June 1992. Additionally, between 1991 and 1996, roughly 200,000 employees left the MVD every year. The MVD, which was facing organizational problems even before the fall of the Soviet Union, lost 37,000 commissioned officers in 1989 alone. Tens of thousands of men and

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<sup>3</sup> The FSB, or *Federalnaya Sluzhba Bezopasnosti*, is the Russian successor to the Soviet KGB in domestic security matters.

women, many of whom had no marketable skills other than the application of force, were unemployed in the early years of the new Russian state (Volkov 2002: 131).

Groups of these former security operatives began to offer commercial protection services, much like organized criminal groups had already been doing. Concern existed in the government, particularly in the MVD, that these commercial protection services would become criminal groups themselves, and this concern was well-founded – a 1993 MVD report claimed that of the 12,600 policemen who had left the force during the previous year, twenty per cent had joined the ranks of organized crime (Varese, 2001: 68). In order to combat this turnover, the federal law “On Private Detective and Protection Activity” was enacted on March 11, 1992. Intended as a long-term solution about how to absorb the large number of newly unemployed state security officers into society, the law allowed civilians to form protection businesses with enforcement capabilities legally unavailable to other organizations. These capabilities included not just physical protection of clients and property but also security consulting, gathering of intelligence on lawsuits, providing information on potential business partners or employees, counteracting commercial espionage, searching for missing persons, and performing market research for client companies (Volkov, 2000).

Such security companies fall under the jurisdiction of the MVD. Licenses for firm formation are issued by the MVD Department for Licenses and Permissions, and supervision of private security companies in general falls to the chief MVD directorate in Moscow. In order for the MVD to grant a license to form such a company, several requirements have to be met. A higher education degree is required for the head of the company as well as at least three years of experience in state security or law enforcement. This requirement was put in place primarily to facilitate the licensing of former state security operatives over other potential entrepreneurs. However, it also guarantees that at least the head of every private security company will likely have personal ties to state security

organizations. Additionally, although the head of the agency is required to have state experience, many former members of the state law enforcement and security are drawn to such agencies as employees. Of the 156,169 licensed security employees in Russia in 1998, 22.6 percent had previous experience with the MVD, 7.9 percent had experience with the KGB or FSB, and 0.8 percent had come from other security organizations. While the majority of private security personnel did not have state security experience, the 31.3 percent that did have that experience occupied the top positions in their respective companies (Volkov, 2000, 486-487).

Three types of private security agencies were allowed in the federal law. The first, private detective agencies, are relatively few in number, their services are expensive, and they have a very specific purpose. For these reasons, they will largely be ignored for the purposes of this analysis. The second type, private protection enterprises, or PPEs, are independent organizations that offer protection services on a competitive market. Some of these organizations were founded by cohesive groups of former state security specialists. For example, the family of protection companies that consist of Alpha-A, Alpha-B, Alpha-7, and Alpha-Tverd' was founded by I. Orekhov and M. Golovатов, former commanders of the KGB antiterrorist unit Alpha. As another example, the private protection company Aleks-Zapad was founded by former officers of a Soviet Army paratroop unit. The third type of private security company, called private security services, resemble private protection companies in services offered, but are established and run by private businesses and are only permitted to supply their services to their parent company. These services were most often established by banks or companies producing strategic resources – as of the year 2000, Gazprom's security service rivaled the size of an army division with 13,000 personnel protecting 41 installations. The same employee composition trends that exist for private



protection enterprises also exist for private security services. For example, another Alpha commander, V. Zaitsev, became the head of security for Stolichnyi bank (Volkov, 2000).

With the creation of legal private security companies, then, the security apparatus of the former Soviet state was privatized. Private entrepreneurs were permitted to offer, in a competitive marketplace, many of the same security services that had formerly been monopolized by the state. The fragmentation of the state security structures and the weakening of their ability to offer these services was an important step in the political transition of the Russian state. However, the creation of private, competing commercial security companies was not a purposeful part of the economic privatization effort but rather a side effect of this political transition.

### *Security and State-Building*

Security is often considered to be a sector of society in which the government has a vested interest and either does not need to or simply should not allow competition. The roots of this argument lie in state-building theory. Charles Tilly in 1985 promoted the idea, in his aptly-named article “War Making and State Making as Organized Crime,” that a government is essentially a large-scale racketeer. The line between legitimate protection and extortion or racketeering, he argues, is a matter of degree. A racketeer provides both protection and the threat that necessitates that protection, while a genuine protector has no control over the threat. However, it may be difficult to determine exactly from what source the danger is coming. Racketeers operating in Russian marketplaces in the early 1990s did not threaten their own clients, but they cooperated with other racketeers that did pose threats. In another of Tilly’s examples, a racketeering criminal group that forces its protection services onto an illegally-operating brothel may genuinely protect that business from police interference (Tilly, 1985: 171).

Tilly argues that the contract between the state and its citizens is a protection racket. Essentially, he says, the process of building a state consists of four steps. The first step is war making, in which the government neutralizes external threats to its authority, such as foreign powers. The second step is state making, in which the government neutralizes internal threats, such as dissidents, separatists, bandits, or competing claimants for control of the state. The third step is protection, in which the government neutralizes the enemies of its clients (generally speaking, its citizens). Finally, the government engages in extraction, which is the process of acquiring the resources to repeat the first three steps indefinitely. The first two steps are carried out for the benefit of the government. While the state's citizens may benefit from successful war making and state making, it is primarily for the survival of the government that they are carried out. The third and fourth steps, on the other hand, form the government's protection contract with its citizens (Tilly, 1985: 181).

The fairness of the protection contract is a matter of degree. If the services that the government offers its citizens in fulfillment of step three are minimal but the price extracted in step four is high, then the government is a burden on its citizens and has more in common with a criminal group. If the government pursues its citizens' interests both domestically and abroad and asks only a small contribution in return, however, the government is likely to be seen as a benevolent force. Even in the best of times, though, participation in the protection contract is generally not optional for citizens, and failure to contribute to the state's extraction attempts are usually met with punishment of some sort, often some form of violence. Monopolization of violence is an important source of legitimacy for a government. As part of the protection pact it makes with its citizens, the government must be the only organization permitted to enact violence on them. Competing protectors not only raise the cost of protection but threaten the government's fulfillment of state-making (Tilly, 1985: 175). As a result, protection itself is often monopolized by the state. For a state

to cede this protection monopoly is to cede some of its power to internal, or possibly external, forces. That is not to say that de-monopolization of security does not happen, however. Private protection is neither a uniquely Russian nor a uniquely modern phenomenon. However, when protection is de-monopolized, it sends a message that the state is either unable or unwilling to protect its citizens.

In a modern state such as the Soviet Union or the Russian Federation, the protection services offered by the government are not carried out by one single institution. For example, the task of neutralizing foreign threats falls to a number of organizations, including but not limited to the armed forces, intelligence services, and the diplomatic corps. Additionally, for a state to protect its citizens means more than shielding them from physical violence, although this is an important task. The government should also protect its citizens' property. In Varese's definition of property rights, citizens must be allowed to use and benefit from their property without the fear of that property being unfairly reallocated by another party (Varese, 2001: 18). The task of ensuring that that a citizen is not unfairly deprived of his property falls to the law enforcement and judicial bodies of the Russian state.

In order to determine the extent to which the state is fulfilling its protection contract, it will first be decided which bodies are tasked with protecting the citizens, and then whether or not they are succeeding. For reasons to be fully explained later, this discussion mostly concerns businesses as protection clients. Two bodies within the Russian government were, in the 1990s, tasked with the protection of businesses. The MVD is responsible for law enforcement, and *arbitrazh* courts, which have their roots in the former Soviet state *arbitrazh* courts, ensure that property rights are protected. If crime rates, particularly violent ones, were low in the 1990s, then it is possible that the MVD was doing its job well, and if *arbitrazh* courts are also determined to have been effective ways of resolving disputes, then the citizens can be assumed to be well-protected. However, the efficiency of these bodies is not

the only concern. The prevalence of unreported crimes can reduce the usefulness of crime rates as an indicator of police effectiveness. Therefore, the public opinion concerning law enforcement and judicial bodies will also be taken into account. Even if law enforcement and judicial bodies are operating effectively, clients will still seek protection from a non-state provider if some other factor causes them to believe that their safety is at risk.

In the first few years of the Russian state, the state security structures tasked by the state with stopping domestic crime, including the MVD, were fragmented and reorganized, greatly reducing their effectiveness, particularly in combating organized crime. The MVD itself saw high rates of employee turnover in the late 1980s and early 1990s. The lost personnel were quickly replaced, but this turnover meant that many of the agents charged with law enforcement were relatively inexperienced (Volkov, 2002). The ultimate official report card for the MVD's law enforcement capability, however, is in crime rates, as reflected in Table 1.2. Official MVD-reported crime rates increased by 194.5 percent between 1985 and 1995, with the sharpest increase in 1989 and a leveling out in 1993. However, this statistic only reflects reported crimes, and according to one study, somewhere between 40 percent and 70 percent of crimes went unreported from 1991 to 1993. Similarly, homicide rates jumped from 15.3 per 100,000 inhabitants in 1991 to 30.4 per 100,000 in 1993. Corruption at all levels of society was also rampant during this time. In a 1996 international study, Russia ranked 47<sup>th</sup> out of the 54 countries surveyed, revealing a high level of corruption, and its position only worsened in the next two years (Varede, 2001: 19-20). The clear implication of these statistics is that law enforcement was not protecting society from crime as effectively as it had done in the Soviet period.

While the MVD protected the state's citizens, as well as the state itself, against crime, *arbitrazh* courts specialized in protecting business transactions. Business law and etiquette did not grow in step with business itself in the new free market economy. Business

was often seen as dishonest, and for good reason. In the stock exchanges of the early 1990s, it became commonplace for brokers to list a product on several different exchanges and honor only the most valuable contract. One survey showed that 30 percent of contracts made in Russian exchanges were not honored (Frye, 2002a).

**Table 1.2 – Crime Increase in the Russian Federation**

<b>Year</b>	<b>Total Reported Crimes (In Thousands)</b>	<b>Homicide Rate (per 100,000 population)</b>
<b>1985</b>	1,417	
<b>1986</b>	1,338	
<b>1987</b>	1,186	
<b>1988</b>	1,220	9.8
<b>1989</b>	1,619	12.6
<b>1990</b>	1,839	14.3
<b>1991</b>	2,173	15.3
<b>1992</b>	2,761	22.9
<b>1993</b>	2,800	30.4
<b>1994</b>	2,633	30.6
<b>1995</b>	2,756	26.5

(Varese, 2001: 19, 20)

To provide for the new types of property that had appeared in the 1980s and 1990s, the Russian state instituted *arbitrazh*, or business arbitration, courts. These courts were not a new creation, but rather a modification of the old Soviet state arbitration courts. A change of character in the old court was necessary to deal with private property. Soviet state arbitration had resolved disputes between two or more state-owned enterprises. A decision by the court would only mean transferring resources from one state fund to another, and rulings tended to favor the decision that would benefit the overall economy more than the group that had actually been in the right. New court procedures resulted in a fairer process, but one that was more difficult for citizens to use. The most debilitating problem was the inability of the courts to enforce their decisions. Awards to a claimant could only be taken from a defendant that had money to give, and hiding funds in secret accounts or even

abroad became common practice. In an interview in July 1996, a court enforcer in Saratov admitted that only five of the 25 rulings waiting for enforcement stood a chance of being collected. This lack of enforcement, in addition to newer and higher court fees, meant that many businessmen would not risk taking their complaints to court (Hendley, 1998).

In response to this business atmosphere, private protection organizations began offering additional services beyond physical protection. Among these, debt recovery, contract enforcement, and dispute settlement became very important to businessmen, who often felt as if they could not rely on the state to perform these services. In 1993 and 1994, roughly 70 percent of contracts were enforced through private means rather than through state enforcement bodies (Volkov, 2000: 491).

The clear implication of these shortcomings is that the state institutions tasked with fulfilling the state's end of the protection contract with its citizens were failing to do so. This failure was a direct result of the fragmentation of the state security structures and the poor implementation of property laws, both of which were in turn results of the collapse of the Soviet Union, Yeltsin's reforms, and Yeltsin's inability to consolidate authority over policy-making in the central government. Whether or not it was an intention of Yeltsin or his reformers to reduce the state's capacity to fulfill its protection contract, however, is unclear.

### *The Players in the Security Market*

After the creation of the 1992 law "On Private Detective and Protection Activity", security was not privatized in its entirety. The state did not abandon its stake in the security market, but rather continued to offer its services to the same clients for whom legal and illegal private security groups competed. In order to accurately analyze this competition, distinctions must first be made in the nature of services offered, to whom these services were being offered, the types of organizations in competition, and time period.

## Services Offered

All security providers offer a number of common services to their clients. Some services exist, however, that are unique to their particular type of protection organization. For example, only the state has the manpower, material capacity, and diplomatic clout to offer protection against foreign threats. Illegal protection organizations can also offer many additional services to their clients. Some businessmen report being provided with physical renovation labor and money loans by strangers with evident ties to organized crime. The acceptance of such offers would assuredly be taken as evidence by the criminal groups in question that they could force the protection arrangement on their client permanently. Other clearly criminal acts such as assassinations and physical intimidation are tools used by such organizations to aid their clients' businesses. In one incident, for example, a Krasnoyarsk businessman ordered the murder of his business partner by a hired mafia assassin upon realizing that killing his partner would actually be cheaper than buying him out. In Vorkuta, a criminal group intervened to stop a workers' strike by threatening the strike leader at gunpoint. These services are in addition to the multitude of illegal activities in which Russian criminal groups may participate that do not fall under the loose definition of protection (Varese 2001). Legal private security companies also offer services not provided by either the state or illegal security organizations. For example, a 1999 article from the Russian business journal *Profil* notes that the PPEs Bayard, MIG, and Fond "Pravoporyadok-Tsentr" have capitalized on their brand recognition by selling automated security systems and establishing training schools for security guards (Inna Lukyanova and Olga Kazanskaya, 1999).

However, services such as assassinations or security training schools are mostly beyond the scope of this comparison of service offerings. The services important for the sake of my analysis are those that would otherwise be provided by state law enforcement in

the broad sphere of personal and property protection, specifically in the prevention, discouragement, and correction of unfair or unlawful action against a person or his or her property. The sphere of personal protection includes bodyguard services and the stationing of security guards. The sphere of property protection, however, is a much wider category, encompassing essentially any action that protects the integrity and usefulness client's personal and business property. Services offered under the category of property protection include debt recovery, building or real property protection, cargo escort and protection, investigation of potential business connections, internal theft prevention, and so on. Not every organization offers every form of protection, and some even specialize in one form in particular. For example, the PPE Alternativa-M specializes in international financial investigations, particularly in debt recovery when the sum in question is being stored abroad (Lukyanova and Kazanskaya, 1999). However, these services are common to state, illegal private, and legal private protection organizations in general that compete to offer them to potential clients. Table 1.3 outlines a list of services typically provided by security organizations.

**Table 1.3 – Services Offered by ISOs (Illegal Security Organizations), PPEs (Private Protection Enterprises), and the state**

<b>Type of Service</b>	<b>ISO Method</b>	<b>PPE Method</b>	<b>State Method</b>
Physical Protection	Intimidation of potential threats	Bodyguards, response teams	General area security, response teams (police)
Property Protection	Intimidation of potential threats	Security guards, response teams	General area security, response teams (police)
Debt Recovery	Debtor intimidation	Debtor investigation	<i>Arbitrazh</i> courts (judicial)
Business Partnership Insurance (Contract Enforcement, internal theft prevention, etc)	Investigation of potential partners, intimidation	Investigation, business research, surveillance	<i>Arbitrazh</i> courts, criminal courts (judicial)
Unique Services	Assassination, money loans	Security training schools, security product sales	Protection from international threats



### To Whom Services Are Offered

Who are the clients for protection services? For the purpose of this comparison, a client is a small, non-industrial, commercial enterprise. Private citizens are not relevant to the discussion because they take advantage of only a small number of protection services – primarily, physical protection services such as bodyguards. Large enterprises are also not relevant. The inadequate property rights that existed in Russia at the time of this comparison tended to more thoroughly protect the interests of such enterprises. Additionally, larger enterprises tend to be capable of maintaining their own sizeable and effective private security services which are also not central to this comparison, as will be explained shortly. Finally, manufacturing firms also do not need the full range of protection services offered by security organizations. Although the need for physical security for the purpose of facility protection still exists, Timothy Frye points out that only 3 percent of these firms had hired a non-state protection organization for the purpose of debt collection (Frye 2002b: 576).

However, Hendley and her colleagues have a potential explanation for the tendency of manufacturing firms to not use private security services. Although manufacturing firms are no more trusting of the arbitration abilities of Russian courts than are businessmen, it seems that manufacturing firms do not heavily rely on the courts in the first place. Deals made by manufacturing firms are often made between personal contacts, many of which were formed during the Soviet era. As a result, business deals made by manufacturing firms are much more reliable than those between other businessmen, who might have no personal familiarity with their potential partners. Manufacturing firms also rely on prepayments from their purchasers, thus negating the possibility of a contract falling through. Finally, complex transactions do not seem to take place often between manufacturing firms, reducing the need for third-party arbitration bodies to step in and ensure that the contract is being handled fairly (Hendley, et al., 1997). The implication behind these factors is that, since

third-party arbitration is simply not necessary for manufacturing firms to do business, they have no reason to choose a type of protection service that offers debt recovery or contract enforcement over one that does not.

### Who Offers Services?

There are three basic types of organizations that are involved in competition for the security market: illegal security organizations, private protection organizations, and the state. Illegal protection organizations are, by definition, not defined by law. They often offer services similar to those offered by legal protection organizations, but they engaged in illegal activities to the extent that they must hide the majority of their organization from law enforcement. Protection services are just one of the many profitable enterprises into which an organized criminal group can enter. Any organized criminal group that participates in illegal racketeering or offers any security services in general can be referred to as an illegal security organization, or ISO. Understandably, the line between illegal and legal private security is a vague one. There have been attempts by some criminal groups to become licensed as PPEs by the MVD or to create sub-groups that are so licensed in order to legalize the group's protection actions, such as the carrying of firearms, and legitimize the group's protection racket and thus attract employees from the state law enforcement. Two such example of criminal organizations that obtained security licenses are the PPE "Scorpion," headed by A. Efimov of the Tambovskaya gang, and the PPE "Adris," operated by the Malyshevskaya gang, and which protected companies including Baskin-Robbins in Russia (Volkov, 2000).

It is the second sector of the security market – legal private security, or private protection enterprises (PPEs) – with which this paper is primarily concerned. However, the 1992 law that allowed for the creation of PPEs also allowed for the creation two other types

of legal private security companies. The second type of company, private detective agencies, is not important to this discussion. They are relatively few in number; their services are expensive; and they offer services that are outside the scope of security and protection. The third type of private security company is a private security service, or PSS, which is established and owned by a parent company. A PSS does not operate freely on the security market, as do ISOs and PPEs. Instead, it is only legally permitted to provide its services to its parent company, from which it in turn receives funding.

**Table 1.4 – Private Security Firm Numbers in the 1990s**

<b>Year</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Total # of Private Security Firms</b>	0	4,540	6,605	7,987	9,863	10,487	10,804	11,652
<b># of Operating PPEs</b>	0	1,237	1,586	3,247	4,434	5,280	5,995	6,775
<b># of Operating PSSs</b>	0	2,356	2,931	4,591	5,247	5,005	4,580	4,612
<b>Firms Shut Down by MVD</b>	0	0	73	690	622	978	1,364	1,277
<b>% of Industry Shut Down by MVD</b>	0	0	1.1%	8.6%	6.3%	9.3%	13.6%	10.9%

(Volkov, 2002: 138)

Immediately following the enactment of the 1992 law, PSSs were not only the most common type of legal private security company but also the largest. By 1994, 21,805 people were employed in PSSs, as opposed to 16,500 employed in PSEs (Giblov et al., 1995). As shown in Table 1.4, 2,356 Private Security Services existed in 1993, as compared to only 1,237 PPEs. The number of PSSs reached its highest number in 1996 with 5,247 firms in existence. However, PPEs had closed the gap, and in the same year 4,434 PPEs were in operation. In the following years, the number of PSSs actually decreases while the number of PPEs continued to rise at a steady pace, and this trend continued through the end of the 1990s.

There are several explanations for the trend. First, PSSs are less efficient than PPEs, which are generally larger and benefit from an economy of scale. Additionally, whereas PSSs have a guaranteed client in their parent company, PPEs are forced to compete openly on the market, and thus tend to offer better services for lower prices (Volkov, 2000). Furthermore, the fates of PSSs are tied to that of their parent companies. For example, during the economic burst of 1995, 125 banks went bankrupt, taking their security services down with them. The instability of PSSs worried the MVD, which had to hurry to disarm the now-unemployed former private security personnel who had worked for these services (Pogonchenkov, 1997). The MVD had already been suspicious of the potentially subversive capacity of PSSs, since such organizations were more strongly responsible to the interests of their parent companies than to that of the state or any other body. As a result, when MVD scrutiny over and regulation of all forms of legal private security intensified in 1995, PSSs were particularly popular targets (Volkov, 2000).

As the hassles of maintaining a private security service increased, a new trend appeared. Rather than create a PSS of its own, businesses often preferred to form freely operating PPEs. These companies are free to offer their services to other organizations, thus covering the costs of their own operation and even becoming profitable. The parent business maintains a majority share control over the PPE, ensuring priority to the parent business over its other clients, but the PPE otherwise functions as any other; although, there is concern by other clients about the PPE's capacity for industrial espionage in favor of its parent business (Pogonchenkov, 1997). The trend to establish an independent but majority-controlled PPE rather than create a PSS also very likely contributed to the decline in PSS numbers. Because of their decline in relevance, and because PSSs do not compete freely in the security market but rather offer their services to one single guaranteed client, they do not

play a large role in the competition for the security market and are not important to this comparison.

The third and final section of the security market is the state. The state's role in security provision has already been discussed, and it retains a large share of the security market by offering the services of its law enforcement and judicial institutions. However, the state does not act like a market actor, so an explanation for why the state is being treated as a competitor in the security market is in order. As Charles Tilly stated, "governments are in the business of selling protection, whether the people want it or not" (Tilly, 1985: 175). In theory, a client cannot opt out of the state's protection contract. The state's biggest strength is that entering into its protection contract is required by law. Most of the analysis here will be devoted to explaining why clients choose another type of protection, if any, in addition to the state. In practice, however, it is completely possible for a client to at least partially opt out of its contract with the state, as evidenced by the fact that the Russian government collected only 60 percent of its projected tax revenue in 1994 (Newcity, 1997: 42). A businessman who avoids paying his taxes will still receive many of the benefits of state protection. However, it is in his best interest to avoid any type of state protection – such as taking a lawsuit to court – that will invite state scrutiny into his dealings, as scrutiny is likely to uncover evidence of his tax evasion.

### Time Period

Now that the three competing sections in the security market have been introduced, it is important to divide the 1990s into two periods of time. This division is not definitive. More attention will be paid shortly to the various political trends in Russia in the 1990s and their effects on the operation of private security companies, and the matter is not as clear-

cut as splitting the 1990s in half. However, the transition point that is relevant for this analysis of competition in the security market occurred in 1995.

The pre-1995 period, with which this chapter is concerned, was one of relative chaos, or what Volkov calls a “state of nature” (Volkov, 2002: 127). The fragmentation of the security structures and legal reforms concerning private property weakened the state’s capacity to offer physical or legal protection to its citizens, as previously argued, at a time when a new private sector was emerging that needed new forms of property protection. Criminal organizations fulfilled these new protection needs on a large scale and maintained a sizeable share of the security market, as well as control of much of the entire business market itself. Because the services offered by private protection organizations were already firmly planted in the realm of crime, and since profit was the only motivating factor of these organizations, the next logical step from securing a business as a client was taking over the business completely. MVD statistics from January 1994 claim that 40,000 businesses, including 2,000 state-run businesses, were controlled or owned by criminal groups, and that 55 percent of capital was controlled by these same groups. Other sources dispute these statistics, arguing that this number actually exceeds the number of profitable businesses in Russia at the time (Volkov, 1999). The general consensus, though, seems to be that the vast majority of private businesses in Russia in the early 1990s were protected or controlled by criminal groups.

Although they began to appear in 1992, PPEs did not hold a large share of the security market prior to 1995. They were viewed by government security organizations as competition and by potential clients as only slightly more trustworthy than ISOs. Government authorities expressed fears that legal matters were not being resolved by judicial bodies, but in informal and possibly illegal situations by private bodies (Zarubin, 2001). The state of the pre-1995 security market, then, was that PPEs were unreliable, the state was either

unwilling or unable to provide effective security services, and organized crime controlled a large section of the security market through coercion. Because success in the pre-1995 security market was granted not by effective competition but by exploitation, as is the main reason for the predominance of ISOs, market competition prior to 1995 is not worth examining. ISOs dominated the market, and PPEs did not yet have the post-1995 advantages that will be introduced in the next chapter and which allowed them to break ISOs' control of the private security market.

## **Conclusion**

The Soviet collapse, the struggle to create a new Russian state, and the reformation of the state security structures caused the early 1990s to be a period of turmoil. Although elites were able to take care of themselves, the government was unable satisfactorily protect the property, rights, and physical security of its citizens. This situation created demand for private organizations that were willing to do so. However, lack of regulation over this market meant that those organizations that were willing to rely on illegal measures to promote their services enjoyed strong advantages over those organizations that were not. As a result, organized crime dominated the private security market and used this position of power to assert control over much of the Russian economy.

Toward the end of Yeltsin's first term in office, the government began to get back on its feet. A number of events in the early- to mid-1990s signaled this attempted assertion of authority by Yeltsin's government, beginning with the President's favorable position following the Constitutional crisis of 1993. The most important of these events for the purposes of this paper occurred in 1995, when the MVD responded to a Presidential decree demanding that it tighten regulation methods over the private security industry. These regulations fundamentally changed this industry. This change will be the subject of the second chapter.

## **CHAPTER II**

### **COMPETING TO PROTECT**

#### **Introduction**

The private security market changed fundamentally in 1995 due to a seemingly minor occurrence. In that year, the Presidential administration asked the MVD to strengthen its regulatory practices over private security firms. This change increased the public's trust in PPEs and, just as importantly, increased the MVD's trust in them. Perceived as honest and professional organizations and utilizing the resources made available to them by cooperating with the MVD, PPEs became strong competitors to ISOs in the post-1995 security market.

As Yeltsin struggled with other actors vying for influence over Russia's policymaking process, the state continued to be unable to satisfactorily protect the property, rights, and physical security of most of its citizens. Small businesses had to make the choice of either entrusting their security to the state, relying on the protection of a criminal organization, or hiring services of a private protection firm. The factors that might lead a business to choose one provider over the others, as well as the political events that allowed the private security industry to continue to thrive, are the subject of this chapter.

#### **Yeltsin's Limitations**

A strong central government, argues Thompson, is one that is internally cohesive, relatively autonomous from society, and able to push forward policy without consent from outside actors. A strong government, as is probably obvious from these criteria, is not necessarily a democratic one. However, it is a potent one and capable of implementing a



coherent set of laws and regulations toward whatever ideological or institutional ends it sees fit (Tompson, 2001).

The Yeltsin government largely failed to satisfy these requirements. In competition for authority that existed within the national government, Yeltsin was strong. After the failed 1991 coup, he saw the opportunity to capitalize on his popularity by consolidating authority in his position in order to protect his administration while he pushed forward with potentially unpopular reform efforts (White, 1997). Throughout its early existence, Yeltsin's administration preferred speed over the creation of a coalition that would provide support while undergoing slow reforms over a longer period of time. However, the Russian parliament supported a more moderate set of reforms, and tension between the legislature and the executive branch grew. William Tompson called Yeltsin's government under Gaidar a "kamikaze cabinet" after its intentions to drive drastic and unpopular reforms at the cost of its own survival (Tompson, 2001: 174). After the Constitutional Crisis of 1993, however, Yeltsin's 1993 Constitution created a government in which authority was concentrated in the executive branch. It essentially gave the President the right to direct legislation, to form his own administration, and to issue legal decrees (White, 1997).

After 1993, Yeltsin's government successfully isolated itself from competition within the formal central government structure. However, its great weakness was its inability to isolate itself from non-formal or non-central actors. The two major obstacles to Yeltsin's reform attempts were the oligarchs and the regional administrations. The oligarchs rose directly from Yeltsin's privatization efforts. One of his first actions as part of privatization was to free prices, meaning that prices on most goods, formerly kept artificially low by the Soviet government, changed to their market price almost overnight. A number of well-positioned and opportunistic elites, generally either enterprise managers or their close associates, took this chance to buy a large number of industrial goods and commodities at their low fixed

prices and then resell them for much more after prices were freed (Tompson, 2001). Some of the wealthiest and most influential oligarchs, however, were able to take advantage of the loans-for-shares program of the mid 1990s to obtain large shares of a natural resource production company for relatively low prices (Guriev and Rachinsky, 2005). Yeltsin accrued a political debt to these people after the 1996 Presidential election when, faced with dropping popularity, he made a figurative deal with the devil and asked the oligarchs for help with his reelection. They used their formidable monetary and media resources to support a successful reelection campaign, with the understanding that they would hold much influence of Yeltsin during his second term in office (Braguinsky, 2009). Having made their money largely through rent seeking, many of the oligarchs used this influence to block any policy that limited their ability to continue to rent seek. In order to pass legislation, Yeltsin's administration generally had to make concessions to these oligarchs, meaning that attempts at liberalization often resulted in further entrenching their power (Tompson, 2001).

Regional governors also thwarted Yeltsin's attempts at federal supremacy. Although the governors of Russia's 89 regions were nominally subordinate to the Kremlin, Yeltsin relied heavily on the political support of regional governors, particularly in the face of dwindling popular support, and his government did not generally interfere in their affairs. Many governors enjoyed what Hashim calls "personal fiefdoms" in which they governed with little regard to the wishes of either Moscow or their own constituents (Hashim, 2005: 29). Even in 1999, in the last year of Yeltsin's term, the Russian Federation Justice Ministry reported the existence of over 50,000 regional laws that contradicted national-level laws. Although regional governors could not directly influence the passing of policy by the national government, Yeltsin's economic policies had to include appeasements to them (Hashim, 2005).

Although Yeltsin's administration had effectively pushed the balance of authority in the national government toward the Presidency, there were many influential non-central government actors – specifically, regional authorities and the oligarchs – who also had the ability to affect policy, and liberalization and the improvement of property and physical protection for Russian citizens as a whole was generally not in these actors' best interests. Yeltsin had laid the framework for a strong, centralized government during his first term in office, and the Russian state had begun to more strongly assert its control over domestic affairs. However, in securing his political position, he had ceded much of his authority to other actors, ensuring that the national government's power would be hobbled through the end of the 1990s.

### **The Post-1995 Private Security Market**

As Hare and Muravyev note, there are three steps for market growth. First, new firms must enter the market. Second, existing enterprises – particularly, as in Russia's case, firms that had operated differently under communist control – must restructure for growth. Finally, underperforming firms must be shut down (Hare and Muravyev, 2003: 347). In the pre-1995 security market, the first step was certainly true, particularly following the adoption of the 1992 “On Private Detective and Protection Activity” Law. The extent to which restructuring took place is questionable. The market failed to force underperforming firms out of business, however. A large number of private security services existed, which did not respond to market forces. ISOs also controlled a large section of the market. The state law enforcement organs were not strong or efficient enough to force ISOs out of operation, and the continuation of a protector-client relationship was generally the ISO's decision rather than the client's.

In the post-1995 period, however, the Russian security market began to perform more like a healthy, competitive marketplace in which the quality of services, rather than

overt coercion or lack of options, decided what type of provider a potential client would choose. PSSs, which are not responsive to market forces, declined in popularity during this period relative to PPEs, which do respond to market forces. More importantly, in 1995, a ministerial decree was issued demanding that the MVD increase its control over the activity of private security organizations. This decree resulted in stricter licensing controls and tighter monitoring of existing PPEs, including the creation of electronic accounting and identification systems and more diligent attempts to revoke the licenses of private security firms that broke MVD regulations. Statistics clearly illustrate the results of this decree. No security firms were shut down in 1993, and 73 firms, or roughly 1.1 percent of the firms in operation, were closed in 1994. However, in 1995, 690, or roughly 8.6 percent of the firms in operation, were closed by the MVD. That number continued to stay high, hitting a high point in 1998 when 1,364 closures meant that the MVD had shut down 13.6 percent of all legal private security firms (Volkov, 2002: 138). It should not immediately be assumed, however, that these closures primarily targeted inefficient or underperforming firms. MVD regulations tend to favor large, efficient, well-supervised agencies with experienced employees rather than smaller organizations (Zarubin, 2001). It seems, then, that underperforming organizations are more likely to be targeted, although profitability is not necessary the criterion by which the MVD targets a firm for investigation. Additionally, these new regulations made it difficult for criminal organizations fronting as PPEs to continue to operate. The PPE Scorpion, which was run by the Tambovskaya criminal group, was shut down by the MVD in 1996 and its chairman Efimov was arrested a year later (Volkov, 2000).

This increase in regulation, combined with the fact that the pool of unemployed former state security operatives had largely been exhausted, means that the number of PPEs in existence, which had been rapidly increasing since 1992, began to level out in 1996. As a result, whereas the pre-1995 body of legal private security companies was

inundated with small, inexperienced, and legally questionable firms, the post-1995 market was highly regulated both by market forces and by MVD authorities, clearing up much of the distrust that state organs held toward these firms and thus allowing a mutually beneficial alliance between the two groups. PPEs with state ties could coordinate with state law enforcement in such ways as sharing case information and providing force where state coverage was thin. In return, law enforcement agencies could provide PPEs with compensation in the form of money or equipment (Volkov, 2000). Additionally, and just as importantly, cooperation with state agencies provides the ultimate in brand recognition for a PPE. If a PPE advertises its cooperation with a state agency or agencies in general, it assures potential clients that the organization is legitimate, non-criminal, and professional. Thus, the incentive of an instant positive market reputation encourages PPEs to follow MVD regulations and to work closely with state agencies (Aleksandrov, 2001). Such is the cooperation between post-1995 PPEs and the state that A.I. Gurov, the chairman of the Security Committee of the Russian Federation State Duma, referred to the former as the “reserve, partner, and ally” of the latter (Gurov, 2001: 103).

An unintentional but beneficial side effect of the alliance between state agencies and PPEs, which further increased the role of market forces after 1995, was the breaking of criminal control over businesses in Russia. ISOs had essentially cornered the protection market in Russia by 1994. However, disrupting this control was an interest shared by both the state and legitimate PPEs. To state law enforcement agencies, ISOs were essentially organized crime, which by definition they were expected to combat. To a PPE, though, ISOs are competition in the protection market. The circumstances and process by which a client could rid itself of ISO protection required the legal capacity of the state and the physical protection capabilities of a PPE. The general consensus among law enforcement representatives seems to be that criminal control of the Russian economy has been greatly

weakened since the middle of the 1990s. The head of the PPE Argus lists as a selling point for his company that none of his clients fall under the protection of the mafia (Volkov, 2000). Government sources, too, cite the cooperation between PPEs and the state as one of the primary reasons that “main types of activity and main enterprises [of Russian business] are free from the criminal influence in the Russian Federation” (Gudkov, 2001: 124). Although the assertion that Russian business is completely free from criminal influence is debatable, the general statement that criminal control of the economy has weakened seems to be true.

### **Competition for Clients**

The security capabilities of the Soviet state were privatized following the collapse of the Soviet Union. However, the new Russian state did not cease to offer similar protection services to those offered by ISOs and PPEs. Each sector of the security market had unique benefits and risks, and one can predict that a number of factors might determine whether a client will choose to enlist illegal or legal private security or to rely solely on the state.

For the purpose of this discussion, several assumptions will be made. First, it will be assumed that a profitable business that does not hire a private protection provider is under the protection of the state. Second, a business will not hire both a PPE and an ISO, nor will it hire more than one organization from either group. Third, a client that is content with the level of protection provided to him by the state will not hire a private provider. Finally, because each client will generally choose one provider to the exclusion of all other competing providers (the state not technically being a competitor), ISOs and PPEs will compete for clients in some way, making the provision of security a competitive market. The specifics of competition are mostly unavailable, especially in the case of ISOs. Prices for services vary greatly, and it is difficult to quantify the quality of services offered – as one journalist noted, the quality of a protection service is only revealed when it fails

(Pogonchenkov, 1997). It will be assumed, however, that all organizations that attempt to make a profit from providing security services will compete against each other in some way for clients, and they do so by offering a variety of services that fulfill a number of general protection needs, as illustrated in Table 1.3 in the previous chapter.

### *The State*

The state can be thought of as the discount option. Taking for granted that acceptance of the state's protection and payment for its services is mandatory for all, the state is the cheapest option. However, a business enlisting the state's protection services and *only* the state's protection services is getting what it pays for: although the state is by far the largest and the most capable protection firm, to the individual it can only offer semi-reliable security and unreliable arbitration. In practice, a business can opt out of the state's protection contract by withholding taxes. However, this is illegal, and has negative consequences even if the practice is not discovered.

### *Illegal Security Organizations*

The benefits of enlisting the services of an illegal private protection organization over relying solely on the state's protection are obvious. While the state may not be entirely capable of protecting a client against physical threats to person and property, a private protection organization is more capable of doing so – especially when the physical threat is made by the organization in question in order to coerce the client to accept protection. Criminal groups, however, can offer to their clients services that can give them an advantage in business, such as contract enforcement, debt recovery, or money loans. However, there also exist serious risks in hiring an illegal private protection organization. Once a client is under a criminal group's "roof," he is at its mercy. As the protection contract is made informally between the client and the protection organization, the state does not

play a role in ensuring that all sides play fair. In fact, simply admitting to the state that such a contract exists is to admit to a criminal act. The protection organization can use this leverage to extort higher protection fees from its clients and to lessen the extent to which they fulfill their protection duties. Additionally, it can be extremely difficult for the client to end the protection contract. Finally, competition among private protection organizations actually increases rather than decreases the cost to the client. Unencumbered by state regulation, ISOs find it more profitable to decrease supply by violently subduing competitors rather than by offering improved services, and to increase demand by causing the threats that make potential clients seek protection rather than by lowering prices (Frye, 2002a).

### *Private Protection Enterprises*

The loosening of ISO control over the protection market, as well as the changes in the legal private security market after 1995, altered the performance of PPEs in the protection market enough to make the benefits and risks of pre-1995 PPEs irrelevant. The benefits for a client of choosing a post-1995 PPE, however, are many. A PPE that works with the state is capable of harnessing the massive judicial capabilities of the state for its client. Additionally, a regulated PPE is forced to compete with other PPEs within a legal framework. Whereas ISOs compete by manipulating supply and demand through illegal means, PPEs must compete in the protection market by offering better services at a lower price. The contract between a PPE and its client is also recognized and enforced by the state, meaning that a PPE cannot arbitrarily alter its pricing or the services it offers. The physical protection offered to the individual client by a contract with a strong PPE is much greater than that offered by the state and very competitive with that offered by ISOs, as evidenced by the fact that clients of the PPE Argus do not seem to experience trouble from organized crime.



However, contracting with a PPE has two major limitations. The first of these is that many small businesses just do not have the money to hire a PPE. The second is that PPEs simply cannot legally offer some of the services that ISOs can. Debt recovery, one of the services so desired by businessmen who operate in an unregulated economy, is one of these services. MVD authorities have attempted to stop the practice of debt recovery as part of their increased regulation of the PPE market. If a PPE wishes to secure the cooperation of state agencies that makes it so attractive to clients, then it must offer restricted debt recovery services to its clients (Volkov, 2000). This service usually consists of investigations into debtors' alternate, undisclosed, and often foreign-based accounts and holdings in order to present proof that the individual or firm in question is capable of repaying its debts. These measures are often enough to force a repayment, and if they are not, then the PPE can present its evidence to an *arbitrazh* court (Lukyanova and Kazanskaya, 1999). Although doing so is often effective, one imagines that ISOs have much more effective methods in their arsenals to persuade an individual to repay his debts.

*Why would a client choose form of protection over another?*

When the benefits, risks, and limitations of each type of protection are examined, a number of expectations can be formulated. They are as follows:

*1. If respect for state judicial institutions is high and the state-imposed cost of doing business is low, the state is chosen as the only protector.*

On paper, a client cannot opt out of the state's protection plan. A client can, however, decide that he requires additional or more reliable protection services than the ones offered by the state. Two factors seem to be required for a client to commit to the state's protection contract and forgo other choices. First, trust in the state's legal institutions must be high. The client must feel that any problems it has can be resolved through the judicial process offered

by the state. Second, if the cost of doing business is high, more clients will opt out of state protection. This cost includes not just taxes, but overbearing regulations that might decrease the efficiency or profitability of a business (Frye, 2002b).

*2. An ISO is often chosen when the client is already engaged in illegal activities.*

It stands to reason that if a client is engaged in activities that disinvite state scrutiny such as tax evasion or illegal trading, it will turn to an ISO for protection. The state cannot be relied on because turning to the state for help would invite scrutiny that could reveal the client's illegal activities. Additionally, PPEs in Russia that wish to maintain their alliance with state security agencies would likely not cooperate with clients engaged in illegal practices. Thus, if the high cost of business or weak judicial institutions invite illegal practices, it can be expected that ISOs form an important, if not the primary, form of protection enlisted by clients.

*3. A PPE is often chosen when a client has the money, or when a client feels that the PPE is well regulated.*

The current situation in Russia provides a prime example of a well-regulated body of PPEs. The marketing benefits of working closely with the state provide a strong incentive to do so, and the legal regulations enforced by the MVD provide a release valve for the exclusion from the protection market of PPEs that do not work with the state or are simply otherwise unreliable. If trust in the reliability of PPEs is high, then it can be expected that enlisting the services of a PPE will be common among clients with the means to do so. The number of clients who actually do so, however, will likely depend on how reliable the state's physical and judicial protection services are.

*4. A switch from an ISO to the state is uncommon.*

A switch from an ISO's protection to the state's protection would entail the client removing itself from the ISO. Such a switch would appear difficult, if not impossible, as an unregulated ISO has far stronger means of keeping a profitable business under its protection than the business has of removing itself. Such an action might only be remotely possible in the case of a business that is no longer profitable enough to warrant an ISO's attention.

*5. A switch from an ISO to a PPE is likely only when the benefits exceed the risks, the client is not engaged in illegal activities, and a suitably strong PPE can be found.*

One of the operations undertaken by many PPEs is the removal of mafia (ISO) control from private businesses. There are three conditions that must be true for this to happen, however. First, the potential business benefits of removing ISO protection must exceed the risks of doing so. If a business has high profit potential then this is true. However, if the ISO is not engaged in extortion of any kind and/or the business is not highly profitable, then it is likely that removing ISO protection will not be attempted in the first place. Second, the client must not be engaged in illegal activities. This is mandatory not only to ensure the cooperation of any legitimate PPE but also to ensure that the ISO does not have leverage to keep the client under its control. Third, a suitably strong PPE must be found. The state-PPE alliance that can be found in Russia is particularly adept at ISO removal primarily because it allows the PPE to combine its own physical protection power, required to shield the client against any repercussions, with the judicial capability of the state, which is required to discourage the ISO from attempting to carry out said repercussions (Volkov, 2000).

### *Other Considerations*

Of course, there might be other factors that could affect which type of protection a client chooses. An argument exists that, in the case of ISOs, the client's desires may not be the driving factor in deciding whether or not a client enlists an ISO's services. Evidence does exist to support the suggestion that ISOs actively seek out clients rather than the other way around. Businesses that undergo costly renovations, thus revealing an availability of capital, are more likely to be contacted by ISOs. If it is the ISO rather than the clients that drive the proposal of protection contracts, they would certainly be able to create the threats that would ensure such contracts are accepted by their clients (Frye, 2002b). If this general argument holds true, the strongest factors for determining whether or not a client chooses an ISO over another type of protection would be apparent wealth of the client and strength of the ISO in relation to available PPEs rather than what has already been suggested.

### *Case Studies*

In order to test the validity of the enumerated expectations, the protection market in four different cities in 1996 will be examined. Moscow, as the center for both commerce and state authority in Russia, will serve as the Russian benchmark case to which other Russian cases can be compared. Smolensk, which offers relatively little state interference in business, semi-reliable courts, and MVD-regulated PPEs, will be another case. The third case will be Ulyanovsk, which also offers regulated PPEs but imposes increased state interference in business and courts that are less reliable than those in Smolensk. Warsaw, Poland, will also be examined in order to comparatively illustrate the effects of regulation on PPEs. Another post-communist city, Warsaw offers less government interference and more reliable courts than can be found in most of Russia. The PPEs of Poland are much less regulated than those of Russia, however, and as a result, are much less reliable.

Many of the statistics used are adapted from Frye's *Private Protection in Russia and Poland*. Some of his findings are reproduced here in Table 2.1. The number of inspection agencies and the inspections made per year will be considered, with the assumption that more inspection agencies doing the same job on multiple occasions is a symptom of regulation inefficiency and will raise the cost of doing business. When available, the percentage of businesses using the services of a PPE will also be used. ISO usage is extremely difficult to determine, as few clients will implicate themselves in having a relationship with a criminal organization. However, a rough statistic can be determined by asking clients if and how recently they have had any contact at all with an ISO. The assumption can be made that, if a client has had contact with an ISO within the six months prior to the survey, it is likely that the client has enlisted its protection services.

**Table 2.1 – State Regulation and Usage of Private Security Among Small Businesses, 1996**

	<b>Moscow</b>	<b>Smolensk</b>	<b>Ulyanovsk</b>	<b>Warsaw</b>
<b>Inspections per Year</b>	18.7	15.3	21.9	3.3
<b>Number of Inspection Agencies</b>	4.9	4.4	4.7	1.6
<b>Businesses Undergoing Renovation</b>	58%	84%	53%	90%
<b>PPE Usage</b>	21%	58%	53%	35%
<b>Recent ISO Contact</b>	23%	20%	24%	6%
<b>ISO Contact ever</b>	42%	22%	65%	16%

(Frye, 2002b: 577)

#### *Moscow*

Businesses in Moscow were inspected by an average of 4.9 agencies on 18.7 occasions per year, which is above average but not the highest among the cities polled. In the light of the business relations in Moscow mentioned earlier, it may be safe to assume that businessmen in Moscow did not put much trust in the ability of state courts to solve problems for them. Only 47 percent of Moscow businessmen believed that a state court would be able to resolve a dispute they had with another business partner (Frye, 2002b:

576). Finally, as Moscow is the center of MVD regulatory ability, it can be assumed that PPEs in Moscow were highly regulated, even for Russia. Thus, with court reliability at a medium level, high levels of costly government intervention in business, and high regulation of PPEs, one would expect that a client would be most likely to choose a PPE, followed by an ISO, with few choosing to rely solely on the state for protection.

The numbers, however, do not reflect this. Twenty-three percent of businessmen reported having recent contact with ISOs, which is one percentage point short of the highest result of all cities surveyed. Additionally, only 21 percent of businessmen reported enlisting the services of a PPE, which is the lowest of all cities. Even if one can assume that a client is not likely to be under both a PPE and an ISO in Russia and therefore that these two statistics do not overlap, the majority of businesses in Moscow relied solely on state protection. This will be addressed later.

### *Smolensk*

Smolensk has adopted a more liberal attitude toward business controls than some other Russian cities. Businesses reported an average of 4.4 government agencies doing 15.3 inspections per year, which is the lowest number of all Russian cities surveyed. Fifty-four percent trusted the government's ability to resolve problems with other businessmen and, as Smolensk is a Russian city, it can be trusted that PPEs in Smolensk were highly regulated (Frye, 2002b). If businessmen in Smolensk experienced medium levels of trust in their courts, low levels of government business intervention, and high levels of PPE regulations, it can be expected that potential protection clients in the city would be most likely to contract a PPE. Some might rely solely on state protection, while relying on ISO protection would be uncommon.

The numbers from Smolensk validate expectations. Fifty-eight percent of surveyed businessmen had contracted PPEs for protection – this is the highest number of any city surveyed. Only 20 percent had recent contact with an ISO, which is the lowest number in Russia. More strikingly, only 22 percent had ever had contact with an ISO at all, which is lower than the statistic for Moscow by half. The market for ISOs simply did not seem to thrive in Smolensk. The remaining businesses, it can be assumed, relied on the state for protection.

### *Ulyanovsk*

Ulyanovsk has gone the opposite direction from Smolensk in terms of business intervention. While the average number of state inspection agencies a business encountered – 4.7 – was slightly lower than that of Moscow, businesses in Ulyanovsk experienced an average of 21.9 inspections per year, the highest of any city surveyed. Citizens of Ulyanovsk seemed slightly more optimistic concerning the possibility of a state court resolving problems between business partners, with 64 percent believing that they could do so. However, only 24 percent believed that a court would resolve a problem in their favor if their property rights were violated by a state organization (Frye, 2002b). It can also be assumed that the PPEs of Ulyanovsk are as well-regulated as those of Moscow and Smolensk. Thus, Ulyanovsk offered businesses high levels of government intervention, either high or low levels of judicial reliability, depending on what kind of problem was being solved, and high levels of PPE regulation. If expectations hold true, many businesses would try to avoid government business regulations and thus be driven into the protection of ISOs. PPEs, well-regulated as they are anywhere in Russia, would also be a popular choice. Few would entrust their business solely to the state, especially if they did not trust the state to protect their rights.

The statistics for Ulyanovsk confirm these expectations. Twenty-four percent of businesses had had recent contact with ISOs. While this is not particularly high, it is still the highest of any city surveyed. Additionally, 65 percent – by far the highest of any city – report having ever had contact with an ISO, meaning that ISOs saw the city as having high potential for clients seeking illegitimate protection. Fifty-three percent of clients had enlisted the services of a PPE, which is similar to the statistic from Smolensk. A relatively small number of businesses in Ulyanovsk relied solely on the state.

### *Warsaw*

The environment in Warsaw was different from that in a Russian city. Its economic plan was similar to that of Smolensk, only more liberalized. Businesses report an average of 1.6 government agencies performing 3.3 inspections per year, which is a fraction of the government economic regulation in Russian cities. Furthermore, trust in state judicial institutions seem to be strong, and 80 percent of Warsaw businesses surveyed believed that they could rely on the courts to protect their rights in case of a dispute with a business partner (Frye, 2002b).

Warsaw differs most greatly from any Russian city on the matter of PPEs, however. As in Russia, private protection in Poland appeared shortly following the end of communism. Much like the rest of the new liberalized Polish economy, these PPEs had little regulation. Because of this, PPEs in Poland behaved very much like ISOs. There have been accounts of private security agents robbing banks, kidnapping, and taking hostages, sometimes while wearing the uniform of their employing organization. The Polish government has even considered PPEs at times to be a national security risk, as some heads of protection organizations have become informers for Western intelligence agencies (Los, 2005).



Because of weak government regulations of the PPE industry, PPEs were generally held in little higher regard than ISOs.

The unregulated PPE industry, combined with the trust of Warsaw businessmen in the state courts and the low levels of state intervention in business, should mean that the state is the primary supplier of security for clients in this city. The statistics reflect this: only 35 percent of Warsaw businessmen contracted with a PPE, and 6 percent had had recent contact with an ISO. The rest, it can be assumed, relied solely on the state for protection. The striking statistic here, though, is the low number of clients that contract with ISOs compared to those that contract with PPEs. One possible explanation for this is that, with little regulation over the PPE industry, organizations that would otherwise act as ISOs find it more convenient to become PPEs. This would also be beneficial for their competition in the protection market, as the PPE title at least comes with some claim of legitimacy.

### *Conclusion*

For most examples, the expectations developed earlier hold true. Moscow, however, proved to be an anomaly. Rather than PPEs being the dominant form of protection, followed by ISOs and then the state, as would be expected, the exact reverse proved to be true. One possible explanation for this is that, as Moscow is the capital and home to most of Russia's enforcement bodies, government scrutiny is much more intense. This scrutiny would make it much more difficult to avoid the state protection contract by withholding taxes or entering into illegal deals. Another possible explanation is that, in a city as large and as commerce-heavy as Moscow, the demand for PPE protection simply greatly outstrips the supply, accounting for the low percentage of businesses that employ PPEs for protection.

The argument that the active seeking out of clients by ISOs is a major driving force in the protection market, however, seems to be completely disproven. Warsaw and Smolensk,

the cities with the highest number of expensive business renovations undertaken, also have the lowest number of businesses that rely on ISOs for protection.

### **The End of the 1990s – The State Returns**

A number of dates have been named throughout the first two chapters. Perestroika began in 1986, which allowed for the first instances of legal private enterprise in the Soviet Union. In 1991, Yeltsin's government resisted an attempted coup, and used the opportunity to disband the strongest sources of Soviet power, effectively bringing down the Soviet Union and beginning the economic and political reforms that would create the modern Russian state. The formation of private security companies was allowed in 1992, essentially creating legal competitors to the illegal organizations that were offering the personal and property protection services that the Russian state could not. A 1995 decree altered MVD regulation practices, with the result that PPEs would now work in concert with state enforcement bodies in offering protection services. Finally, on December 31, 1999 – the very end of the 1990s – Yeltsin announced his resignation in favor of then-Prime Minister Vladimir Putin.

However, these dates do not divide the 1990s into distinct segments. One cannot simply say that the state disintegrated in 1991, gained its footing in 1995, and returned to power in 1999. While it is true that the state in 1992 was weaker and more decentralized than it had been in 1990, and that the state had again regained some authority by 1998, these trends are the results of interactions between a number of different parties vying for some sort of authority. Examining private security companies is a particularly effective way to track these trends, as they occupy a space in society that is created by the government's failure to provide total protection to its citizens. The reasons behind this failure are complex, as are the reasons behind the state's increasing ability to provide this protection toward the end of the 1990s. Yeltsin's reforms undermined the law enforcement and judicial institutions

that provided protection, and the inability of the central government to monopolize authority weakened its ability to protect the rights, property, and physical security of its citizens. As per Grzymala-Busse and Jones Luong's conceptualization of the state-building process, a large number of elites competed for authority in Yeltsin's Russia. Protection of the rights and property of the common citizen was not in the best interest of many of these elites, particularly the oligarchs and many regional governors, and the struggle for authority by non-state actors often produced a failure to protect citizens' rights as a side effect. The most reasonable response to the question of why the state did not provide appropriate protection was that the institutions tasked with providing it could not do so, and the actors that could allow the institutions to do so either did not want to or simply had other priorities. This answer, as well as the political trends of the 21<sup>st</sup> century and their effects on private security, will be further explored in the next chapter.

## CHAPTER III

### PUTIN GETS THE JOB

#### Introduction

In determining the strength of the Russian state at the end of the twentieth century and the beginning of the twenty-first, it is perhaps helpful to identify two levels of competition for authority.<sup>4</sup> The first of these is the competition within the formal national-level government structures between the executive and legislative branches of government. The second level of competition existed between the national government and external sources of power, such as non-state actors or even non-central government actors. As Grzymala-Busse and Jones Luong point out, non-state actors can wield just as much influence as state actors, depending on the source from which they derive their influence (Grzymala-Busse and Jones Luong, 2002). Even if the central government is the only authority capable of influencing state policy decisions for example, power can still be balanced throughout the various governmental branches. Alternatively, power can concentrate in the executive branch, but state actors can still be unable to resist the influence of non-state actors, as was the case in Yeltsin's Russia.

The first intention in this chapter is to determine what actors held authority in Russia in the late Yeltsin years and during Putin's first presidential term, and what kind of state they built. The second goal is to examine the Putin state's effects on the existence of private

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<sup>4</sup> The term "authority" in the second chapter, as in the first chapter, is a reference to Grzymala-Busse and Jones Luong's work, and refers to an actor's ability to manipulate policy on the national level.

security. Two factors are necessary for the existence of private security. First, the state must, in some capacity, be failing to provide sufficient protection to its citizens, whether because it cannot or because it will not. Second, the state must allow private organizations to offer security services, again either because the state is too weak to prevent their existence or because it simply does not wish to prevent it. It will be argued that private security continues to exist through a combination of the above factors. Putin's government was able to greatly improve its ability to offer to its citizens services that fall under the classification of protection. There are shortcomings in the completeness to which protection is offered, however. Namely, while a Russian citizen in 2004 was much more likely to have his property protected from his fellow citizen than was a Russian citizen in 1994, he was just as unlikely to find that this protection extended to safeguarding his property from the government. Putin's regime is generally uncomfortable with non-governmental competition in any sphere, especially in spheres in which this competition has the capacity to limit the actions of the government. However, the Russian state has substituted regulation and soft power controls for direct ownership of private security, allowing the government, regardless of its strength, to effectively co-opt private security organizations and bring them under the influence of the MVD. Modern Russian PPEs offer effective protective services to those who are still not completely satisfied with the government's ability to protect them against other citizens. However, they cannot be relied upon to protect citizens from the arbitrary actions of the state.

## **Putin in Charge**

### *The Election*

When Yeltsin resigned in 1999, Vladimir Putin, then the Prime Minister, became the acting President. He was seen by Yeltsin and his supporters as sufficiently loyal to continue

looking after their interests. However, Putin still had to face an election in May 2000 in order to gain the full Presidency, which he won with over half of the votes. McFaul notes four reasons why Putin was able to win this election. The first reason was the war in Chechnya. The first Chechen War, fought under Yeltsin, was a disaster. Independent media sources reported on the military's poor performance and criticized the administration's goals and conduct, greatly reducing public support. However, the second war was viewed by the Russian people as an instance of self-defense, as the Russian military offensive was in direct response to a Chechen incursion into Dagestan and then intensified in response to a series of apartment bombings in Russia in September 1999. The Russian forces relied heavily on air power, making the war seem cleaner from a Russian perspective, and the state conducted its own media coverage and propaganda campaign in order to maintain support for the war. As a result of this, public support for Putin's government remained at around 60 percent throughout the 2000 election (McFaul, 2000).

The second reason for Putin's victory was that he was a source of optimism. Whereas politics in the 1990s had seemed like a struggle between communism and anticommunism waged by old men, Putin was young and his politics were not well known, which allowed people to project their own political hopes for stabilization and a departure from the tumultuous 1990s. Third, Putin had no major political opposition, either from formal or informal sources. Other political parties were not organized enough to effectively oppose him, and alternate sources of authority, such as the oligarchs and other powerful actors who had supported Yeltsin, believed that Putin would look after their interests. Finally, Yeltsin's early resignation pushed the election forward by three months, allowing Putin to pull off a victory even as his public approval was beginning to drop (McFaul, 2000).

## *Putin in Office*

Hamish asserts that although Yeltsin's supporters assumed that Putin would be loyal to them, Putin actually owed loyalty to three different groups that had helped him throughout his political career. The first of these, the group that supported Putin's succession of Yeltsin, is what Hamish calls Yeltsin's "Family," which consists of Yeltsin's most immediate supporters and of the oligarchs who had secured Yeltsin's loyalty through monetary and political support (Hamish, 2005: 30). The second and third groups were the Saint Petersburg-linked economic liberals and the security servicemen who had helped Putin in his political career. Each group wanted different, and sometimes contradictory, goals, and each group was capable of harming Putin's support in some way. The "Family" wanted to be provided for, and for the concessions that they had obtained under Yeltsin to be preserved. The economic liberals, disappointed at Yeltsin's state's inability to provide for and protect its citizens, pushed strengthened rule of law and the improved climate for investment that it would provide. The security services lamented the fact that some individuals – particularly the oligarchs – were beyond the reach of the state's law enforcement. To retain his Presidency, Putin would have to either appease all three groups, or see to it that they were not in position where they could wield any power against him (Hamish, 2005).

In addition to those of his supporters, Putin had his own goals that would reorder the Russian state with the President as the uncontested top of the pyramid. Steven Fish identifies four goals that Putin had upon attaining the Presidency: centralization of state power, the creation of a practical Russian state ideology, state control of communication, and the ordering of political competition. Putin conceived of the state ideology as what Fish calls "supraethnic, statist nationalism" based in the Presidency itself, the military, and the rule of law (Fish, 2001: 72). He also brought all national television stations under state authority, and some criticisms exist that censorship and monitoring of communication by

secret police, both prevalent during Soviet times, have returned in spite of being explicitly forbidden by Articles 23 and 29 of the Russian Constitution (Fish, 2001: 76). Additionally, new rules concerning political party registration have not only ordered political competition, but eliminated most parties and put the remaining ones under state control (Fish, 2001). Putin's objective of consolidating power in the central Russian government, however, had the most important implications for the private security industry.

In the Russia that Putin had inherited from Yeltsin, regional authorities wielded a great deal of power in their own localities. Any policy passed by the central government had to include concessions required by regional authorities, as taxes revenue went first to regional governors and only then was contributed to the national budget. Regional administrators acted with great personal freedom, often ignoring national laws and passing their own contradictory ones. Additionally, most power abuses happened between local authorities and their constituents. Reigning in these regional authorities, then, would serve the dual purpose of strengthening the rule of law and eliminating one of the major competitors to the authority of the central Russian government (Fish, 2001). In order to increase his control over regional authorities, Putin issued a presidential decree almost immediately upon winning the 2000 election that divided Russia into seven large regions, based on preexisting military districts. Each of these districts was governed by a Presidential Representative, who dominated most of the politics in his respective district, and in turn was appointed by the President. Putin also pushed forward legislation that required regions to forward half of their tax revenue to the national government. This amount increased to 56 percent in 2001 and 62 percent in 2002. Further 2000 reform, pushed through the Duma by Putin, allowed the President to fire governors. These measures broke most of the authority that regional governors had over the central government, disarming one of the main competitors for authority that Yeltsin had faced during the 1990s (Hamish, 2005: 34).



Although Putin had disarmed the regional governors, he still had a major competitor for authority in the oligarchs. Yeltsin had been in debt to them for the aid they gave him in winning the 1996 election. Although Putin had had the oligarchs' support in succeeding Yeltsin, he owed no such debt. His popularity had been high enough to where he could run for office without the support, monetary and otherwise, of the oligarchs (Hamish, 2005: 34). Aware of the political influence that the oligarchs had held in the 1990s, Putin announced even before his 2000 election that he would not tolerate intrusion into politics by anyone hoping to levy economic power for political power. In July of 2000, Putin met with 19 oligarchs and announced to them that he would not look into gains made by any individual by taking advantage of the privatization process as long as they stayed out of politics. He stated, in his usual blunt manner, that the state had a cudgel, and if he had to use it, "it will be used only once, and right to the head" (Hamish, 2005: 37). The seriousness of this ultimatum was demonstrated when the mansion of Vladimir Gusinsky, who controlled the Media-Most media group that included several news outlets that were critical of the government, was raided by armed tax police. Gusinsky himself was ordered to repay \$380 million in loans to state-controlled Gazprom (Hamish, 2005).

Other wealthy individuals, including Boris Berezovsky and Mikhail Khodorkovsky, were also targeted after they opposed Putin's government. Berezovsky, whose own media group gave a new home to many of the personnel from Gusinsky's now-dismantled Media-Most, criticized Putin's attempts at centralization. As a result, the state-owned Vneshekonombank pressured him into the repayment of his \$100 million debt to the bank, and he lost his 49 percent stake of the state-owned television station ORT. In July 2004, Khodorkovsky, who controlled the oil company Yukos and had also been critical of Putin, was ordered to repay his company's tax debt of \$3.4 billion. Yukos could not do so, and it was declared bankrupt and its assets sold (Hamish, 2005). The message seemed to be that,

while past injustices might be tolerated, engaging in politics to challenge the Kremlin's authority would not.

### *The Rule of Law*

Strengthening the rule of law<sup>5</sup> was one of Putin's stated goals for Russia, and a much-desired goal for the economic liberals who had supported him. In some aspects, this goal has been achieved. Reforms to the judicial system have greatly improved the performance of the courts in dealing with the vast majority of cases presented to them. However, as demonstrated in the prosecution of the oligarchs who had made the mistake of challenging the Kremlin, the law still does not protect all Russians. Kathryn Hendley argues that a dual system exists in Russia, in which "mundane cases are handled in accordance with the prevailing law," but "the outcomes of cases that attract the attention of those in power can be manipulated to serve their interests" (Hendley, 2007: 99).

The judicial system in Russia experienced a number of changes during the Putin era, some of which were direct results of reforms and some of which were side effects of other changes. The first area that experienced change was the Constitutional Court, which hears claims concerning the violation of the Russian Constitution. Petitions can be made by the President, a sizeable group of legislators (20 percent or more of either parliamentary chamber), or regional governments. The court receives roughly 15,000 petitions a year. However, between 1995 and 2003, 88 percent of presidential petitions were heard by the court while only half of parliamentary petitions and a third of regional government petitions were heard. The court has been given more authority in the Putin era, but it has largely used this authority to emphasize Putin's own control over Russian politics. Although the purpose of the court is to ensure that no body in the country is above the Constitution, it seems that

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<sup>5</sup> Kathryn Hendley's definition of the rule of law, which will be used here, is a system with "an independent judiciary that applies the law in an even-handed manner to all who come before it" (Hendley, 2007: 99).

the President is just a little less beholden to the Constitution than any other body (Hendley, 2007).

The General Jurisdiction courts also experienced a change. These courts handle any case that is not handled by the Constitutional Court or *arbitrazh* courts, meaning that they handle the vast majority of all judicial cases in Russia. The case load has increased by roughly 10 percent per year since Putin took office, but the increase comes from civil claims rather than criminal cases, which have actually decreased. Hendley suggests that this statistic reveals a complicated truth in Russian society: although overall trust in the court system has not increased as quickly as has trust in other aspects of government, more Russians are taking cases to court (Hendley, 2007: 111).

*Arbitrazh* courts, which hear cases between firms rather than between individuals, have seen two important changes in the Putin era. First, between 1994 and 2004, the number of cases heard by the court grew by nearly 600 percent, which means that Russian businesses are increasingly seeing the court system as an effective recourse for solving problems. Second, cases heard by *arbitrazh* are increasingly between firms and the state rather than between two firms. Hendley cites two reasons for this development. The first is that Russia's overall economic recovery has reduced the instances in which firms need help in resolving debt recovery cases. The second is that citizens are starting to see suing the state as a viable option (Hendley, 2007: 115). Outwardly this seems like a contradiction to the state-society relationship that Putin has fostered with his reforms in which the state is unassailable. However, suing the state through a state-sponsored channel can hardly be considered genuine competition for authority.

Although the most important changes in the courts were largely side effects of other changes in Putin-era Russia, Putin pushed for some legal reforms that directly targeted a

number of areas. The old criminal code, for example, dated from the Khrushchev era. The new code required police to obtain search warrants and limited pretrial detention. New labor codes allowed managers more freedom to dismiss workers and also made it more difficult for managers to delay wage payments. The latter law was pushed forward despite protests from communists and trade unionists. A 2004 law that monetized pension benefits was passed, despite mass protests from pensioners who stood to lose much of the value of their pensions. A further law, passed in 2005, requires the re-registration of non-governmental organizations (NGOs) and likely makes registration much more difficult for NGOs that do not align with the government's goals. The clear message of these reforms, Hendley argues, is that "the fledgling experiment with a law-making process in which the views of society are reflected and respected is over" (Hendley, 2007: 105).

Two common themes appear in Putin's reforms. The first of these is that the average Russian is more protected now than he or she was for most of the 1990s. The business atmosphere has improved and, although Russians still do not completely trust the justice system, they seem to trust its ability to protect their rights more than they did during the Yeltsin era. The second trend is that Putin's government does not tolerate competition. He weakened or eliminated the threat from the oligarchs and other informal elites who had done particularly well in the competition for authority in Russia in the 1990s, as well as reigned in opposing political parties. The Kremlin's competitors had fallen like so many stalks of corn to a scythe. Additionally, he sent a clear message to civil society that, although the government would do its best to provide a stable environment for its citizens in which their rights were protected, independence from the Kremlin would not be acceptable.

During the Yeltsin era, the existence of private security was allowed for two reasons. The state law enforcement and judicial bodies did not provide adequate protection, creating the demand for private security, and the state tolerated a de-monopolization of its security provision, allowing for the supply of private security personnel. However, in Putin's Russia, the opposite seemed to be true on both counts. By strengthening the rule of law and improving the overall economy, Putin eliminated many of the strongest reasons for which a business would hire a private security organization. Additionally, the existence of private security industry in which armed firms offer many of the same services that the state offers seems to go against Putin's centralization ideology. One would imagine that the private security industry would shrink, if not entirely disappear. However, the opposite has been true, as shown in Table 3.1. In 2000, 7,693 PPEs existed, employing 245,807 employees. In 2003, the number of firms had increased to 12,952, and in 2006, 21,768 firms existed and employed 733,311 personnel. Far from shrinking, the private security industry, or at least its legal side, grew almost three times over in six years (Margieva, 2008).

Table 3.1 – PPE Expansion after 2000			
Year	2000	2003	2006
PPEs in Existence	7,693	12,952	21,768
PPE Employees	245,807	449,929	733,311

(Margieva, 2008)

One possible explanation for the expansion rather than shrinkage of the private security market is that PPEs began to offer their clients more effective and possibly illegal services beyond what the state could or would offer, and the state – particularly the MVD – was powerless to further regulate them. This seems unlikely, though, as the state under Putin seemed to be if anything more capable of and willing to regulate than before. Putin

had strengthened and centralized Russia's security ministries, including the MVD (Hamish, 2005: 35, 36). It also seems unlikely that extreme regulations caused PPEs to offer a more Kremlin-friendly set of services, as no such extreme regulations seem to exist.

An adequate answer would explain why PPEs continued to offer desirable services that the government did not offer, but also did not have an antagonistic relationship with the authorities. The former point can be satisfied by examining the types of services that were in demand prior to 2000 and after 2000. In Putin's Russia, improved economic conditions meant that business fraud and unrecoverable debt were not as prevalent as they had been in Yeltsin's Russia. This change, combined with the increased effectiveness of Russian courts, meant that debt recovery and business research were no longer the most appealing services that PPEs could offer their clients. However, if the rate of business misdealing decreased, the violent crime rate did not. As shown in Table 3.2, registered occurrences of robbery, serious assault, and murder/attempted murder stayed high even during Putin's term in office. During the same time, references to PPEs in newspaper articles began to shift from a focus on their ability to solve business problems to their ability to offer physical protection. It seems likely, then, that PPEs began to offer more physical security-based services on their own accord in response to market demands.

The high crime rate explains why the demand for protection services remained high after 2000. However, an additional factor is needed to explain why an antagonistic relationship between the MVD and private security companies did not result in repressive regulations or the outright closure of the private security industry. It will be argued here that through the use of soft power controls, the MVD created a system in which state-friendly PPEs succeeded in the private security marketplace, and those PPEs that did not cooperate with the MVD were eventually run out of business. This system transformed the private security industry from an independent and potentially threatening industry to one whose

existence was approved of and even appreciated by state structures. The nature of soft power will be explained, as well as its effectiveness in co-opting private security firms in Russia.

**Table 3.2 – Registered Crimes (in Thousands) in the Late 1990s and Early 2000s**

<b>Crime</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Total registered crimes</b>	2397.3	2581.9	3001.7	2952.4	2968.3	2526.3	2756.4	2893.8
<b>Murder and attempted murder</b>	29.3	29.6	31.1	31.8	33.6	32.3	31.6	31.6
<b>Robbery</b>	112.1	122.4	139.0	132.4	148.8	167.3	198.0	251.4
<b>Armed/Violent Robbery</b>	34.3	38.5	41.1	39.4	44.8	47.1	48.7	55.4

(Ezhegodnik, 2003; Ezhegodnik, 2006)

## **Soft Power**

Although the usage of soft power is not new, Joseph Nye introduced the concept to the realm of International Relations in 1990. Power, he says, is the ability to make someone do something that he would otherwise not do (Nye, 2004: 2). He argues for a specific conception of power as a situational relationship rather than an inherent quality. Although an actor may hold the most power in one situation, its sources of power may fail it in another. His example is of the United States in the Vietnam War. Although few would attempt to argue that the United States was not more powerful than Vietnam, the latter prevailed in the conflict, largely because the former failed to apply its power correctly in the situational context. Another metaphor that Nye offers illustrates the situational character of power further: a schoolyard bully has power over other children on the playground, but this power is not as effective in the classroom (Nye, 2004).

Additionally, coercive power requires a large amount of strength in order to affect even an incomplete measure of obedience. Nye argues that the United States is the current leader in both military and economic might (Nye, 2004: 4). However, citing the United State's inability to unilaterally affect international trade regulations, stop terrorism, curb international crime, affect climate change, or stop the spread of disease, he claims that this dominance in the traditional sources of influence in world affairs does not grant the United States complete control over these affairs.

Nye introduces the concept of soft power to solve this flaw in the traditional understanding of power. Hard power consists of inducements or threats, military or economical, by one state to encourage another state toward the first state's goals. Soft power, he argues, is the ability of the first state to attract the second state to want the same outcomes that the first state wants. As Nye says, soft power "co-opts people rather than coerces them" (Nye 2004, 5). In a later writing on the subject, Nye uses the example of Europe's arms embargo on China to illustrate the effectiveness of this type of power relationship (Nye, 2007: 167). This embargo, itself a form of hard power, was nearly lifted in 2005 due to the possibility of greater market access for European states. However, the passing of legislation against Taiwanese secession reaffirmed European perceptions of China as an authoritarian state, thus undermining China's soft power and causing Europe to reconsider. However, China's attractiveness – in this situation, the greater access to Chinese markets that would be allowed by being on China's good side – was enough to cause European powers to considering abandoning their ideological stances and do business with China.

Nye's interest in soft power is in its relevance to relationships between sovereign states. However, it can be argued that soft power can play an equally large role in domestic politics. If one actor does not enjoy complete institutional control over another, then both



actors can be thought of as two autonomous entities enjoying variable amounts of self-determination. This conception is just as true with sovereign states as it is with organizations operating within one state. During Yeltsin's term in office, the Russian state only enjoyed nominal control over various aspects of Russian society. Yeltsin's concessions to the oligarchs and to the regional governors more closely mimicked international diplomatic negotiation than they did the interactions between a strong, centralized state and its subordinates.

The sources of hard power and soft power in domestic relations are different than those in international relations. Although the threat of physical or economic repercussions is implicit in a government's dealings with domestic actors, it would be considered an extreme circumstance for a government to regularly use its military to coerce private businesses into cooperation. However, by successfully building lawmaking and law enforcement institutions, a government can coerce domestic cooperation through regulation and enforcement.

It is helpful to picture the relationship between the Russian government and private security in the same way. Theoretically speaking, if the government were to decide to exert its hard power to eliminate legal private security services, the task would go to a number of government institutions. The law would need to be amended, which would be tasked to the legislative and executive bodies of the state. The MVD would have to disarm and disband existing PPEs and deal with after-effects, such as the defection of former private security employees to criminal organizations. This type of control would require a level of strength<sup>6</sup> at all levels of government involved. Regulation, also a form of hard power, was a much more effective way to exert control over the private security industry, as it requires less power on the part of the government agencies involved. Like any form of hard power, though,

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<sup>6</sup> Strength here refers to any quality that helps an organization achieve results, such as manpower, organizational cohesiveness, legal support, and the backing of higher government institutions.

regulation requires a certain level of strength on the part of the government in order to enforce regulations and punish offenders.

The 1995 regulations on private security seem to have introduced a measure of soft power into the relationship between the state and private security. The private security market is competitive, and in any large city in Russia, hundreds of PPEs will be competing for the same clients. In 1997, in the suburbs of Moscow alone, 224 PPEs offered their services to potential clients (Flyus, 1997). Most PPEs offer roughly similar services, with the only difference being the quality of service. The 1995 regulations had two major effects that were emphasized by these conditions. The first effect is that the MVD began working alongside certain PPEs. The MVD works only with PPEs that closely followed regulations and were considered to be cooperative with the state. Working with the MVD allows a PPE to use many of the MVD's resources and, more importantly, allows the PPE to advertise this highly desirable relationship. A potential client knows that an MVD-endorsed PPE is trustworthy and effective. The second effect is that the MVD began targeting PPEs for license revocation more aggressively. Targeted PPEs were generally small and usually underperforming. The combination of these two effects meant that while the MVD would not immediately shut down PPEs that did not cooperate with the state, the lack of MVD support generally meant that such PPEs could not compete with PPEs that did cooperate with the state. An uncooperative PPE, then, would soon find itself in the financial position where it would be investigated by the MVD and likely have its operating license revoked.

A clear example of this occurred involving the MOST Security Group in 2000. The service, a PPE that protected much of the property belonging to toppled oligarch Gusinsky's media and banking groups, was subjected to an unscheduled MVD audit. Upon discovering that the PSS had violated a single regulation (the wall of the company's firearms cabinet was several millimeters too thin), the company's firearms license was revoked and its

weapons confiscated. Although a court later ruled against the MVD action and ordered the return of all licenses and firearms, the MVD's actions are an example of the potentially selective nature of the MVD's regulation of the private security industry (Ukolov, 2000). If the PPE had permanently lost its firearms license, its market even to its founding companies would have dropped significantly. The opposite of this scenario can occur, however, as in the case of Yuri Stenin, the director of the PPE Sokol-YUNS. His PPE was convicted in 2002 of illegal wiretapping and the interception of pager communications, and was in danger of losing its operating license. However, in light of the PPE's longstanding good relationship with the MVD, the penalty was reduced to three years' imprisonment for Stenin himself, from which he was later pardoned (Zapodinskaya, 2002). Sokol-YUNS was permitted to break regulations with little more than a small amount of negative publicity thanks to its positive relationship with the MVD.

The post-1995 regulations, then, are a form of soft power. The state does not exert control over the private security industry by having the MVD shut down any company that does not cooperate with the state. Being able to advertise MVD cooperation, however, is a huge incentive for a PPE to voluntarily cooperate with the state. Theoretically, PPEs in such a system would be self-regulating in that they would only offer services that do not conflict with the state's desires, and only to clients of which the state approves, for fear of having their MVD support revoked. Knowing that PPEs are self-regulating in such a way would also alleviate some of the concern that the state might experience over the existence of an industry in which armed firms offer services similar to those offered by the state. To confirm this hypothesis, though, the activities of private security after 1995, and particularly in the Putin era, will be examined. It will show that the relationship between the MVD and PPEs tightened during the Putin era, leaving less room for the operation of PPEs that did align with the state.

## **Developments in Putin-era Private Security**

An ideal study of the effects of the politics of the new millennium on the private security industry would be similar to the one included in the previous chapter, which studied the effects of the 1995 regulations. However, the data necessary to perform such a study is unavailable. Specifically, a survey of business owners concerning government protection reliability and private security usage until around 2004, at the end of Putin's first term in office would be useful, as would MVD statistics on PPE regulation and organized crime strength. In the absence of such information, newspapers offer a valuable source of information and analysis concerning developments in Russia and their effect on private security. Developments will be treated on a per-case basis. The event itself will be analyzed, and the probable effects on the private security industry will be argued for.

### *State Private Security*

Throughout this paper, the state has largely been treated as a body that ideally gives protection equally to all of its clients. Although in practice different citizens may find that the law protects their property differently, all citizens are promised a certain level of physical and property protection by the law enforcement bodies of the state. However, the Department of Non-Departmental Security (or UVO, for *Upravlenie Vnevedomstvennoj Okhrany*) of the MVD behaves much like a private security organization. Originally founded in 1952 as a Soviet institution, the modern Russian incarnation offers property protection services, generally in the form of guarding apartments or places of business, to paying customers (*Upravlenie Vnevedomstvennoj Okhrany pri GUVd po g. Moskve*, 2011).

Although this service existed throughout much of the Soviet era and the entirety of the post-Soviet era, it has been left untreated by this discussion so far because, throughout

the 1990s, it did not offer effective competition to PPEs or ISOs. Private security companies were desirable because they offered debt recovery and business research services, which the UVO did not. However, as the Russian court system became more effective at solving business problems at the end of the 1990s, demand increased for property and personal protection services rather than for debt recovery and business research, and the UVO was able to compete with PPEs and ISOs in this field.

The UVO offers some advantages over PPEs. Their services are generally cheaper – one 1998 estimate says that a security guard from a PPE costs roughly \$4.50 to \$7.00 per hour, depending on his experience, while a UVO security guard costs about \$2.50 to \$3.00 per hour. Additionally, as part of the MVD, the UVO has better access to not only MVD resources and equipment, but also to state policy makers. This latter point has not seemed to give the UVO a major advantage over PPEs, however, as RUSA – the Russian Union of Security Agencies, an advocacy union of private security companies – has proved capable of lobbying policy makers just as well as the UVO can (Romanov and Borogan, 1998).

A popular opinion is that UVO and private security have different markets. Sergei Goncharov, the chairman of RUSA, said that the UVO should concern itself with public properties rather than profitable private businesses (Romanov and Borogan, 1998). Basic protection from intruders at a low price, which is UVO's specialty, fits the needs of apartments and schools, which often choose UVO protection. The UVO is the discount option, though, and any profitable business that desires high-quality protection will likely choose the services of a PPE over the UVO (Shiryaev, 2002). Additionally, whereas the UVO is funded by the MVD's budget, PPEs are subject to budget discipline and market forces. In order to make their services seem more attractive than those of the UVO, some PPEs offer to replace any property stolen while a member of that PPE is on watch, which UVOs do not do (Sojko, 2001). Although PPEs do view the UVO as competition, the UVO

does not seem to be genuinely keeping the private security industry in check, and does not function as a form of MVD control over private security.

### *Terrorist Attacks*

In September 1999, a series of bombings attributed to Chechen separatists took place in Moscow, Volgodonsk, and Ryazan, killing several hundred civilians. Although a shopping center in Moscow was attacked, most of the targets were apartment buildings (Titov, 2002). The homicide rate, as well as the number of total registered crimes had begun to drop from their peak levels in the early 1990s (Varese, 2001: 19, 20). However, the bombings introduced terrorism as a potential threat to the average Russian, as well as revealed the state's security structure's inability to adequately protect its citizens. Both of these revelations had a positive effect for the private security industry, and many PPEs recognized the potential to take advantage of the situation. In Moscow, many PPEs provided pairs of guards free of charge to the MVD in order to assist with security patrols. Representatives of the private protection industry then leveraged the increased demand for added protection, as well as the demonstrated loyalty of the industry to its enforcement partners in the MVD, to petition the Duma for greater empowerments (Nikitina, 1999).

The private security industry did receive some concessions from lawmakers in the form of greater powers to aid in law enforcement, including the right to carry firearms in public places and the right to request and check individuals' official identification documentation. The most important new empowerment, however, was the right to detain and use force against individuals who resist arrest, a right which had previously been denied to private enforcers. The Moscow-based independent newspaper *Nezavisimaia Gazeta* questioned the wisdom of such an empowerment, suggesting that nothing would stop one PPE from using this power against the operatives of a competing PPE (Nikitina, 1999).

However, this misuse of power may not be entirely against the interests of the MVD. Although all PPEs are permitted to forcibly detain potential criminals, they lack holding facilities and are still bound by strict laws concerning the degree of violence that can be used in detaining suspects. MVD cooperation is needed in order to detain an individual, and one imagines that MVD enforcers might be more tolerant toward cases of excessive violence by PPEs that have a history of supporting the MVD. Although the new regulations concerning the private security company applied to all companies equally, they may have given PPEs that cooperate with the state an advantage over those that did not.

If the 1999 terrorist attacks suggested to Russian citizens that the state might not be capable of protecting them, the 2004 attack on a school in Beslan reinforced the idea. On September 1, 2004 – the first day of school – Chechen militants entered a school in Beslan, North Ossetia, and took roughly 1000 students and adults hostage. After a three-day standoff between the militants and the Russian police along with elements of the Russian military, a disastrous rescue operation resulted in the death of hundreds of civilians, many of whom were children (Beslan, 2004). Many Russians saw the tragedy as a failure on the part of the Russian state to protect its citizens (Sergievsij, 2004). The protection of schools by the state, or by the UVO in many instances, was no longer enough for many parents. Although protection by PPEs is out of the price range for many schools, roughly half of Moscow schools had hired security guards from PPEs by September 6, 2004, while only 80 used the services of the UVO. Most of the money for protection services in schools is raised by parents, who often contribute a certain amount every month to be used for security services (Babkova, 2004). Although a pair of security guards is not likely to stop an armed attack on a school, such as the one that occurred in Beslan, trained security guards are capable of watching for anything suspicious that might lead to such an attack (Zenkovich, 2004).

The threat of terrorism may be one of the most important reasons for which the private security market continued to expand in the 2000s. It exposed an area of weakness in the state security structure – namely, the inability of the state to fully protect its citizens from terrorism – and the prompt assistance that many PPEs gave to the MVD gave the industry as a whole the leverage it needed to defend itself against further attempts to restrict the ability of security companies to offer their services.

### *Gun Control Laws*

On November 13, 1996, the State Duma adopted the federal law “On Weapons.” The law was intended to regulate weapons trade and possession in Russia, particularly among civilians, but it also had a major effect on the private security industry. For the purposes of gun control, private security organizations were classified as civilian carriers with limited additional rights. Private security guards had to obtain licenses to carry firearms on duty and could not carry them off duty. Firms could own certain types of pistols with magazines smaller than ten rounds but could not own anything more powerful, although they could rent shotguns from the MVD (*Ob Oruzhii*, 1996).

Gun control has become stricter since 1996. In 2002, the MVD lobbied the Duma for more regulations concerning ownership and usage of firearms among private security companies, which they subsequently received. In December 2002, the Duma passed a law requiring the creation of automated databases with records of equipment, especially firearms, owned by private security companies. The licensing process for firearms permits for private security personnel also became more difficult, requiring documented training at MVD-approved shooting facilities (*Ofitsialnie Materiali*, 2002).

Gun control laws are a particular effective way for the MVD to hold power over private security companies. By tightening gun control laws, the state can reduce the overall



effectiveness of the private security industry – the MVD already has access to much more powerful weaponry than a PPE is allowed to use. However, the policy of allowing or even requiring private protection companies to rent weaponry from the MVD seems to be an effective way to increase the effectiveness of state-supportive PPEs over non-state-supportive PPEs. A potential client would likely choose a well-armed PPE over an unarmed or lightly armed one. Since, one would imagine, a good relationship is required between a PPE and the MVD before the latter will rent weapons to the former, such a weapon rental policy would grant strong benefits to any PPE that upheld such a relationship with the MVD.

### *PPE Unions*

The Smolensk-based newspaper *Rabochi Put* reported the founding of the PPE union “Garant” in 2001. The union, which was formed in response to growing public concern over legal infractions committed by PPE personnel, works with the MVD, lobbies for PPE interests in government policy-making bodies, solves disputes between members, and recommends well-performing PPEs to potential clients. Garant is only open to PPEs of high character, and its membership as of the end of November, 2001, consisted of 9 Smolensk PPEs (Sojko, 2001).

The newspaper article implies that PPE unions were being experimented with in different cities. RUSA, a PPE union with national scope, was already in existence, but it differs from Garant in that the latter was founded at the initiative of the FSB, and its members are expected to assist the FSB with counterintelligence, counter-terrorist, and anti-organized crime work, as well as be generally supportive to the MVD’s law enforcement efforts (Sojko, 2001). Garant and similar PPE unions have important implications for the relationship between the state and the private security industry. Membership in such a union is beneficial to a PPE, as the PPE will be recommended to potential clients as an effective

and professionally-run company. However, cooperation with the MVD and the FSB are mandatory in order to join the union, making it an effective tool for state control of private security.

### *Employee Regulation*

As the size of the private security industry grew, concern mounted that PPEs were hiring and potentially arming inexperienced and unqualified personnel rather than experienced ex-state security personnel. Some PPEs did exploit a loophole that allowed untrained or young security guards to work without a license for a period of time, which allowed them to hire a large number of security guards for a low cost (Panchenko, 2002). In response to this, the State Duma passed a law in 2002 that increased the accountability by individual security guards for legal infractions made while on duty and increased the quality of training required (*Ofitsialnie Materialy*, 2002). However, the effects of this legislation are unclear, as the number of personnel working in the private security company continued to increase at a high rate throughout the 2000s.

### **Conclusion**

The role of private security changed in the late 1990s and 2000s in response to both government pressure and a changing environment. A lower tolerance for competition with state authorities resulted in stricter firearms laws, restricted services that could be offered by PPEs, and tighter control over licensing and hiring processes for PPEs. An improved judicial system as well as a strengthened central state meant that dishonest business practices, which had generated much of the demand for private security in the 1990s, were not as prevalent in the 2000s. However, despite these changes, the private security industry found a way to make itself acceptable to state authorities and its services desirable to potential clients. The private security industry was made more acceptable to state authorities not by

its own initiative but by the actions of the state. By enacting soft power controls – specifically, by giving a strong market advantage to PPEs that cooperate with the state – the MVD was able to use existing market forces to encourage cooperation with the state by driving uncooperative PPEs out of business. In the private security industry, as in many aspects of Putin’s Russia, loyalty to the state is rewarded more than is adherence to the law.

The private security industry in turn was able to take advantage of the climate of insecurity following the 1999 and 2004 terrorist attacks to offer its protective services to clients who were suddenly unsure of the state’s ability to protect them. Private security also likely benefited greatly from the general expansion of the Russian economy during Putin’s time in office, which would have created a larger base of small and medium businesses with the money to hire private security. This new market for security, as well as the always-existent desire of businesses to have an extra measure of security more than the state is willing or able to provide, allowed the private security industry to continue to grow throughout the 2000s.

## **CONCLUSION**

### **PRIVATE SECURITY FOR PUBLIC GOOD**

Although Perestroika allowed the legal formation of private enterprises, these businesses were on their own in terms of protection. The prevailing attitude was that the state was only responsible for defending its own property. To an extent, this attitude seemed to continue into post-Communist Russian society. In the late 1980s and the 1990s, shortcomings in the state's ability or willingness to protect the rights, property, and physical safety of its citizens produced a demand for private organizations that were able to do so. The 1992 law that allowed the creation of private security companies essentially provided a legal channel by which private organizations could provide the protection services that criminal organizations had already been providing for years.

Between 1992 and 1995, criminal organizations were still best suited to provide private protection services to paying clients. However, the 1995 regulations on the private security industry transformed legal private protection enterprises into trusted professional organization with close ties to the state security structure. Rewarded for their cooperative behavior with an MVD endorsement, many private protection enterprises were able to utilize state resources to reduce organized crime's hold on the Russian economy.

By the end of the tumultuous first half of the 1990s, Yeltsin had consolidated the power of the central Russian government in the Presidency. However, he still owed his political survival to other actors such as the oligarchs and the regional leaders, and was unable to assert his authority free of their influence. Putin, on the other hand, was able to

bring competing actors under the control of the Kremlin, and utilized the framework laid by Yeltsin to centralize all political authority in the President. In much the same way, the 1995 regulations on private security ordered the private security industry but also introduced the framework that the Putin-era MVD would use to subordinate PPEs to the state security structure. Soft power controls utilized existing market forces to reward PPEs that cooperated with the MVD and to punish those that did not.

As Putin's reforms reduced the demand for property protection from third-party security providers and simultaneously reduced the state's tolerance for them, however, the private security market continued to grow. During the 1990s, demand for private security was fed by poor business conditions and low faith in the state's ability to solve disputes; however, as the economy improved and trust in the courts gradually increased, arbitration and debt recovery services became a less important part of private security companies' offerings. At the same time, though, a relatively unchanged crime rate, an expanding economy, and growing fear over terrorist threats fueled the demand for physical security and encouraged PPEs to increase their offerings in that area. Additionally, increasingly effective soft power controls during the Putin period induced PPEs to cooperate with the MVD and align themselves with the goals of the state. The resulting private security industry consisted primarily of PPEs that continued to offer in-demand physical security services but were also not independent enough to be a potential threat to Kremlin authority. In fact, modern Russian PPEs often serve as reserve power for the MVD in maintaining public order and security.

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