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The appearance of a steep increase in economic crime in reforming Russia is partly due to a reliance on misleading statistics, and on a general misperception of pre-reform conditions. While economic crime in reforming Russia is widespread, it was also pervasive, though widely under-reported, in the former USSR. There has been a shift in the form that economic crime takes in Russia but the total amount of economic crime may well be lower during transition than it was in pre-reform Russia, due to the increased legality of many common, private economic activities. Furthermore, many of the factors that tend to increase economic crime (including organized crime) during the Russian transition are the result of the incomplete nature of Russian market-oriented reforms. The most important of these partial reform conditions is the continuing excessive regulation and taxation of private economic activities in Russia.

Official Russian statistics record a precipitous rise in economic crime and organized crime during the reform era. The statistics on Russian economic crime may be quite misleading, however. The overwhelming majority of economic crimes such as speculation, theft of state property, fraud of customers, and violations of plan discipline were never registered under the old regime. Most economic crimes are likely to go unreported nowadays as well. Recent reforms, however, either eliminated the illegality of the widespread economic activities mentioned above, or significantly limited the scope of most of these crimes. On the other hand, the emergence of new economic institutions such as commercial banking and the new taxation system has provided novel opportunities for illegal economic behavior.

The perception of the rise in crime is at least partly attributable to the much greater media openness in reporting individual crimes and selected crime statistics to the Russian public. Simultaneously, foreign perceptions of crime growth in Russia may be skewed due to the "Moscow bias."
Are there any underlying economic factors in the market-oriented reforms that would tend to increase economic crime? According to the economic literature, the main factors influencing the choice to engage in criminal activities include the probability of being punished for the crime; the nature of punishment, its monetary equivalent, and its variance; income from criminal activity (net of the transactions costs of crime) relative to income from legitimate activity, and their variances; and, current wealth. While all of these factors have probably contributed to the increase in economic crime, their influences were not unambiguous. The lower current rates of convictions, for example, may imply that probability of punishment has decreased relative to the pre-reform years or they may signify fewer convictions of the innocent.

Perhaps the most important consequence of Russian reforms with respect to economic crime has been an increase in general uncertainty in the economic and political sphere. By itself, increased economic uncertainty raises the value of criminal activities promising high current income relative to the risk-adjusted present value of legitimate future income.

The increased uncertainty is probably a temporary phenomenon. A partial, half-hearted approach to economic reform, though, could result in longer-term effects on crime, by postponing the emergence of clear property rights and a stable legal system. The overlapping and excessive regulation provides fertile soil for bribe-taking and influence-peddling, and promotes organized crime. Also the complex taxation system with high marginal rates is responsible for a significant share of economic crime (e.g., tax evasion) in today's Russia.

As with other forms of economic crime, determining the effects of reform on organized crime requires understanding the pre-reform situation. The Soviet state used to hold a virtual monopoly on organized extraction of rents from the Soviet population. The traditional Soviet nomenclature system had many features of a mafia-like organization, particularly with respect to private, second economy activity. Economic and political reform has eliminated the monopoly position of the party-state apparatus with respect to rent extraction. The ensuing competition among criminal groups for the newly available rents has resulted in the registered increase in "organized" crime. The perceived increase in organized crime is, in fact, a consequence of its relatively disorganized nature, compared to the pre-reform situation. As the Russian economic situation stabilizes the recorded incidence of organized crime will probably go down.
Whether or not economic crime has been rising in Russia, the crime situation there is quite serious. Moreover, there definitely exists a perception that crime has become more prevalent and dangerous. Both of these factors pose a significant danger for the reform process in the country provoking numerous calls for reestablishment of "law and order" by further limiting the freedom to engage in private economic activities, and by other restrictions on individual rights. In addition, the fear of racketeers surely prevents some would-be entrepreneurs from starting up businesses.

At the same time, the existence of well-developed black markets and even of powerful criminal organizations has a positive side. Some criminal economic activities actually serve to promote marketization of the Russian economy. To an extent well beyond that found in relatively stable market economies, the reforming Russian economy may require economic crime in order to function at all. Naturally, we are not advocating crime, but in a woefully inefficient formal economic system some economic crimes possess socially-redeeming features.

The purpose of this paper is to examine the theoretical and empirical evidence on the effects of market-oriented reform on the incidence of economic crime in Russia. Following the Introduction, Section 2 reviews the official crime statistics and perceptions of increased crime. Section 3 examines the effects of reform on the standard economic determinants of criminal behavior, and concludes that economic liberalization in itself was unlikely to have caused higher crime rates. Partial economic reforms, particularly the continuing state entanglement in the economy, are examined in Section 4 with respect to their propensity to increase economic crime. Section 5 provides a few comments on organized crime, while Section 6 reverses the direction of the analysis, looking at the effects that economic crime have on Russian economic reform. Section 7 presents conclusions.
Economic Crime and Russian Reform

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1. Introduction.

Official Russian statistics record a precipitous rise in economic crime during the reform era (See Table 1, page 16). Between 1985 and 1991 recorded crimes rose by about 50%, theft of state property more than doubled, and the number of crimes against personal property went up by a factor of 2.5. Organized crime is also said to be increasing. A reputable Russian newspaper has reported that the Ministry of Internal Affairs has information on about 3000 "organized criminal structures" on Russian territory. Apparently, this represents a significant increase over the pre-reform period, and the growth is expected to continue. A wealth of anecdotal evidence also suggests that economic crime is skyrocketing in Russia.

While it might appear obvious that increased economic crime would accompany a period of liberalization, some features of the Russian transition tend to reduce crime. Economic liberalization, for instance, widens the scope of legal economic activities, even as loosened bureaucratic controls over state enterprises and an increase in legal markets create new opportunities for economic crime. Market legalization and increased competitiveness should result in a particularly steep decline in organized crime, just as the ending of Prohibition spelled the end of organized crime's control of the U.S. liquor market. From an a priori perspective, it is not clear whether the balance of forces during Russian reform tends to increase or decrease economic crime.

The empirical evidence contained in the official Russian economic crime statistics is likewise not unambiguous testimony to an increase in economic crime. The statistics on Russian economic crime are quite misleading. Economic and political reform has altered the

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nature of economic crime in Russia, thanks to changing laws and a vastly different economic environment—and in many cases has made crime more visible. Incentives to report crime have also changed. It should also be remembered that corruption was rife in the pre-reform Soviet Union. When such factors are taken into account, it cannot be concluded (on the basis of existing data) that the total incidence of economic crime has increased during the Russian reform era, even as official statistics and widespread perceptions suggest a steep rise in crime. Similarly, the rise in Russian organized crime is more apparent than real, and perceptions of increased organized criminal activity derive largely from the more visible—and indeed, more "disorganized"—nature of crime in the reform period.

The purpose of this paper is to examine the theoretical and empirical evidence on the effects of market-oriented reform on the incidence of economic crime in Russia. Section 2 reviews the official crime statistics and perceptions of increased crime. Section 3 examines the effects of reform on the standard economic determinants of criminal behavior, and concludes that economic liberalization in itself was unlikely to have caused higher crime rates. Partial economic reforms, particularly the continuing state entanglement in the economy, are examined in Section 4 with respect to their propensity to increase economic crime. Section 5 provides a few comments on organized crime, while Section 6 reverses the direction of the analysis, looking at the effects that economic crime have on Russian economic reform. Section 7 presents conclusions.


There are significant problems with evaluating statistical data during a transition from one set of institutions to another. Measurements of important economic phenomena such as inflation, unemployment, and the growth rate of GNP partly depend on the existing economic, political, and social institutions. Reform changes the underlying institutions (and frequently changes the official definitions and measurement techniques of economic phenomena as well), so that comparisons of pre-reform and post-reform statistics are like comparisons between apples and oranges.

Such problems are particularly severe in measuring trends in economic crime in reforming Russia. During the transition, many old laws have been eliminated or significantly
altered, and many new laws have been introduced. In some cases, economic behavior that was prohibited only a few months ago is now encouraged by the authorities. Most private economic activities have become legal, though in many cases licensing and other restrictions serve to restrict the scope of private activity. Among the specific changes, the 1992 Law on the Freedom of Trade has severely limited the applicability of the pre-reform law against "speculation," the re-selling of goods for private gain. Simultaneously, certain activities that were not supposed to exist under socialism— and hence were not strictly speaking illegal—only recently have become recognized as crimes. Prostitution, for example, now proscribed, was not illegal during most of the Soviet era, since prostitution was a social ill associated with capitalism, and therefore non-existent under Soviet socialism.5

In addition to the changing legal environment, the interpretation of Russian crime statistics is made difficult by the collection methods used under the old regime.6 According to Moscow News, there used to be a requirement that the police clear 95% of all reported crimes, putting strong pressure on the Soviet police to underreport difficult-to-solve crimes.7 Moreover, it is highly probable that the overwhelming majority of economic crimes such as speculation were never even reported to the police under the old regime. According to the official data, speculation constituted less than 2% of all reported crimes even though virtually all resale of goods for profit by private individuals used to be proscribed by law (see Table 1, page 16). Every time a salesperson sold a good through the back door at a markup from the official price he or she committed a crime of speculation.8 Virtually all transactions at the many Soviet tolkuchki (bazaars) constituted speculation. Nonetheless, both in 1985 and in 1991 the number of recorded crimes of speculation was less than 60% greater than the number of recorded premeditated murders and attempted murders.

Theft of state property used to be perhaps even more common than speculation. While almost 500,000 such thefts were reported in 1991, this number grossly underestimated the true incidence of theft of state property— particularly if small thefts are taken into account. Consider, for example the fact that only 30,700 small thefts of state and public property were reported in 1991, compared to 452,000 large thefts. Clearly, the overwhelming majority of small theft went unrecorded, as there is ample evidence of the mundane, everyday nature of the theft of property from state-owned enterprises and farms. Stealing state-owned property
was common enough that the public attached little opprobrium to such thefts. Another economic crime where the official statistics are unreasonably low is "fraud of customers." The reported incidence of this crime is only slightly greater than that for murders (see Table 1, page 16). Violations of plan discipline, such as padding output records or wage rosters, should be added to this list of severely-under-reported economic crimes during the Soviet era. Technically, even an enterprise's underfulfillment of the plan was illegal, though these violations did not appear in official statistics.10

Most economic crimes are likely to go unreported nowadays as well. Recent reforms, however, either eliminated the illegality of the widespread economic activities mentioned above, or significantly limited the scope of these "crimes." Violations of plan discipline cannot take place in the absence of the plan, speculation remains a crime only with respect to trade in a small number of commodities with controlled prices, and the opportunity to steal state property is being constantly diminished by privatization.11 And since these one-time crimes were not really considered to be criminal by much of the population, they were more likely to go unreported than the economic crimes characteristic of today's Russia. On the other hand, the emergence of new economic institutions such as commercial banking and the new system for taxation has provided novel opportunities for illegal economic behavior. Not surprisingly, tax evasion appears to be extensive in post-Soviet Russia.

The arguments presented above suggest that the official statistics do not provide unambiguous evidence on the direction of change in the amount of economic crimes. Nevertheless, there is a widespread perception that economic crime has skyrocketed since the introduction of perestroika—a perception generally shared by those unfamiliar with the official statistical data. This perception, however, is at least partly attributable to the much greater media openness in reporting individual crimes and selected crime statistics to the Russian public. Another factor may be the apparently wider availability of dangerous weapons in Russia; while economic crime itself may have decreased, the dangers to an average individual may have increased because of shifting forms of economic crime (and non-economic crime). Many of the pre-reform economic crimes, as noted, were not even considered to be objectional by large segments of the population.

Simultaneously, foreign perceptions of crime growth in Russia may be skewed due to
the "Moscow bias." Foreigners typically obtain much of their information about Russia from Moscow newspapers, and from talking to Muscovites and observing their lives. Moscow, however, used to be a particularly low crime city due to both strict residence controls, which kept out people with criminal records, and the large resources devoted to keeping order in the capital. While formally residence controls remain in place, their enforcement has become considerably more lax. Meanwhile, the ability and, apparently, the desire of the central government to concentrate crime-fighting resources in Moscow has declined dramatically. These and other factors make the dynamics of crime in Moscow different from those in other Russian cities, to say nothing of the rural areas.

Given the radical relaxation of legal restrictions on individual economic activities, the elimination of the plan, and the severe problems with interpreting the official statistics on economic crime, it is quite plausible that the incidence of economic crime in general has actually decreased, despite the statistics and widespread perceptions to the contrary. (As we mentioned earlier, some categories of economic crime, such as tax evasion, probably have skyrocketed, however. Bribes and large thefts may also have risen.) Similar mitigating factors are less important for violent crimes, which are likely to have increased.

Another possible, even likely, time-path for the amount of Russian economic crime is that it first rose, and then fell during reform, with the peak perhaps occurring in the last days of the centrally-planned system. The reasoning behind this time-path is that in the early years of perestroika, the partial reform legislation such as the Law on Cooperatives opened up more channels for engaging in economic crime, without removing all of the illegality of private action. After the end of the planning era, however, and the consequent elimination of all plan-related crimes and most cases of speculation, the increasing legalization of private economic activity more than offset the new possibilities for economic crimes. For example, in discussing the relationship between a state-owned enterprise and several private cooperatives internal to the enterprise, Johnson and Kroll (1991, p. 304) note that "the manager of the main firm said that the cooperatives used to bribe people in the main firm to obtain resources. Now the problem has disappeared, he added, because the contract has been legitimized as a 'contract.'" Whatever the true time-path of economic crime rates, the direct comparisons of the available crime rates statistics does not appear to be a particularly
meaningful exercise. It is perhaps more important to investigate the underlying economic factors affecting the relationship between economic crime and reforms.

3. Economic Analysis of Crime During Reform

According to the economic literature, the main factors influencing the choice to engage in criminal activities include the probability of being convicted; the nature of punishment, its monetary equivalent, and its variance; income from criminal activity (net of the transactions costs of crime) relative to income from legitimate activity, and their variances; and, current wealth.

Consider now the changes accompanying reform in these determinants of the proclivity for criminal activity. While all of these factors are changing during reform, we will primarily address them separately, from a partial equilibrium, ceteris paribus viewpoint.

a) Probability of punishment. Both the probability of being caught and the probability of being convicted appears to have decreased significantly, at least for reported crimes, during Russian reform. While no arrests were made in only 9.7% of all reported criminal cases in 1980, this figure had risen to 17.8% in 1985, and reached 63.4% in 1989. Only 47% of all reported crimes were solved in the first nine months of 1992. Again, however, most economic crimes were (and remain) unlikely to be reported.

Virtually all individuals—over 99%—who were charged with crimes under the traditional Soviet system were convicted. Conviction rates have declined significantly in recent years, though. The number of convictions decreased from 837.3 thousand in 1985 to 593.8 thousand in 1991, despite a large increase in the number of reported crimes. The percentage of arrested individuals released during preliminary investigations also increased dramatically, reflecting in part improved adherence to legal procedures. (Less positively, increased releases could also reflect a greater susceptibility of law enforcement officials to bribes.) Of course, high rates of arrests, charges, and conviction under the old system did not necessarily correspond to a high probability that the actual guilty parties were punished. Rather, the statistics may reflect the pressure on law enforcement officials to indicate that crimes were solved—particularly given the absence of adequate legal protections for charged individuals. On balance, it is likely that the old system was successful in punishing many of
most actual criminals, though undoubtedly many innocent individuals were also convicted.

A high probability of conviction of criminals has been shown to be one of the most effective deterrents against crime. This deterrent effect is partly undermined, however, by a high rate of punishment of innocent people. If criminals and innocent people are equally likely to be punished for crimes, the legal system provides no incentives to be law-abiding.

b) Quality of Law-Enforcement. While, as noted above, an increase in the proportion of unsolved crimes may be a misleading indicator of changes in the quality of law enforcement, it remains likely that the quality of law enforcement in Russia has declined during reform. Perhaps the most important factor here is changes in the legal real incomes of law enforcement officials (LEOs) relative to potential earnings elsewhere and to the potential bribes. While such dynamics are difficult to ascertain, over the last several years the legal and illegal private sectors have offered greater opportunities for higher incomes than has state employment—if the possibility of the abuse of the official position is excluded. These trends have probably resulted in an outflow of many talented and energetic (and perhaps honest) workers from state law enforcement agencies, and in the greater attractiveness of bribes for those who remain. Police corruption, in fact, appears to be the rule in reforming Russia. The increased degree of uncertainty over future state incomes and pensions also reduces the opportunity cost and increases the appeal of taking bribes.

c) Severity and nature of punishment. Under the Soviet system the majority of criminals convicted of more than minor violations of the law were incarcerated in prisons or labor camps, or sent into internal exile. Sentences limited to community service and fines were relatively rare. In the late 1980s the Soviet prison and labor camp population was twice that of the US, on a per capita basis. High rates of imprisonment resulted in the removal of many potential criminals from the rest of the society, severely limiting their opportunities for committing more crimes. In addition, released prisoners were usually placed under close police supervision at the site of their post-imprisonment exile. The percentage of convicted criminals sentenced to incarceration in a prison or a labor camp declined during the perestroika era, from 47.4% in 1985 to 34.9% in 1991. Over the same period the proportion of those sentenced to a fine increased from 8.7% to 12.2%. This substitution of monetary fines for imprisonment as punishment could have contributed to an
increased incentive to commit crimes.

As in the West, a criminal record in Russia is itself a form of punishment, as released criminals may have trouble securing employment or receiving other profitable opportunities. In the pre-reform Soviet Union, the continuing punishment of ex-convicts was institutionalized. Official documents such as the internal passport and the "labor book" often permanently recorded previous criminal convictions. The restrictions placed on ex-convicts settling in large cities have already been noted. State domination of the economy combined with the restrictive (and generally enforced) residence policies resulted in a severe reduction in legal employment opportunities following criminal conviction, seriously increasing the cost of being convicted in the pre-reform USSR. With a minuscule legal private sector, many released prisoners had little legal choice but to accept low-paying jobs away from the major cities. The recent rapid development of the legal private sector and lax enforcement of the residency restrictions have therefore dramatically decreased the cost of criminal conviction in reforming Russia.

Not only have the costs of incarceration fallen. In some cases, monetary fines have become practically irrelevant as a result of inflation. (Mikhail Gorbachev was fined 100 rubles, or about $1 at the time, for failure to appear in the Constitutional Court.) Even though some fines are frequently updated, with galloping inflation they cheapen quite quickly. One payment that probably does keep pace with inflation, though, is the payment of bribes to law enforcement officials for mild treatment, whether for real or imagined crimes.

d) Wages in criminal activities relative to those in legitimate activities. It is difficult if not impossible to conduct a straightforward comparison between legitimate and illegal wages. Due to such problems as the popularity of in-kind compensation, methodological difficulties with measuring inflation during transition, and the paucity of published data, measurement of trends in legitimate real wages is destined to be unsatisfactory. Determining the dynamics of illegal real wages is even harder.

The reform years saw a good deal of repressed inflation, and following the January 2, 1992 partial price liberalization, both repressed and open inflation were high. High repressed inflation increases the incentive to illegally divert goods from the state sector to the free market sector. To the extent that state-sector workers risk their jobs by engaging in
illegal behavior, reform may have lowered the deterrence of crime. If state-sector employees view the loss of future wage income less meaningful, they may find criminal activity more attractive. Simultaneously, the opportunities for high wages and for entrepreneurial income in the legal private sector provide strong disincentives to committing crime, at least for those who believe that they have a reasonable probability of working in the private sector—and with mass privatization underway, most workers probably view this possibility as imminent.

Russian reforms have led to an increase in general uncertainty in the economic and political sphere—a radical departure from the remarkable stability of the pre-reform years, the "period of stagnation." A major new component of uncertainty is the threat of open unemployment, which was minuscule in the old system. Uncertainty over the future existence or value of pensions has also increased dramatically. Other things being equal, the higher the uncertainty of future income, the lower its present value for risk-averse individuals. By itself, increased economic uncertainty raises the value of criminal activities promising high current income relative to the risk-adjusted present value of legitimate future income.

A related point is that under the old system many jobs and positions carried a set of privileges and the opportunity to collect rents, often through technically illegal economic activity.20 Dismissal from such a job resulted in the loss of these privileges and rents. Reform has resulted in the loss of the security of the informal perks that accompany jobs. In some cases, the in-kind rents have been monetized; in other cases, they have been lost. In either case, the threat of the loss of such a job is a less effective deterrent to economic crimes.

For example, suppose a person's compensation from his or her job included (formally or informally) the use of a state-owned summer home (dacha). Then dismissal would result in the loss of use of the dacha, in addition to the foregone wages. If, however, thanks to privatization opportunities that accompanied reform, the person managed to purchase the dacha from the state, dismissal from the job would no longer result in the loss of the dacha. In effect, people holding certain jobs had to post a bond, which they would forfeit if they were convicted of a crime. Due to recent reforms this bond has been either lost or returned to the person. In either case, the deterrent effect of such a bond has been eliminated.
pension associated with state employment offers another example of a bond. A decrease in the value of the pension decreases the cost of a criminal conviction. The reduction or even elimination of the "bond" associated with state employment benefits has been (to some extent) replaced by the "bond" consisting of the legally-owned capital accumulated by many Russians. This new bond may be just as effective as the old one in terms of raising the opportunity cost of committing crime. 21

e) Effect of changes in income and wealth inequality. An increase in income and wealth inequality might provide additional incentives to commit economic crime; most particularly, theft from private individuals might be expected to rise. Under a perfectly equal wealth distribution (among non-criminals) the opportunity cost of crime is relatively high while the potential gains are relatively low. If wealth inequality is high then poorer people have relatively low opportunity costs of crime (low wages in legitimate activities) and relatively high potential gains from crime due to the existence of rich individuals. 22 While it is likely that wealth and income inequality in Russia have increased over the last few years, this increase has not been reflected in the official data. 23 It is unclear, therefore, what effect this factor has had so far on the incidence of economic crime.

f) Effect of wealth changes. According to conventional wisdom, reforms have been associated with a significant decline in wealth and the standard of living in Russia. Conventional wisdom may be wrong, however, as many of the same difficulties that arise in interpreting economic crime statistics also bias the assessment of Russian living standards. 24 Nevertheless, if average living standards have fallen, such a decline would likely be associated with increased economic crime: impoverishment of a significant part of the population would make crime more attractive, and decrease the opportunity cost of imprisonment.

Wealth includes human capital. For many Russians, the value of their human capital has changed dramatically during reform. For those who had acquired skills associated with dealing in market economies (perhaps through second economy activity), the value of their human capital is likely to have increased. Many others, perhaps particularly middle-aged and older people, have experienced a diminution in the value of their human capital. (Of course, new opportunities for rapid accumulation of human capital have opened up as well.)
A decline in the value of human capital, like declines in other forms of wealth, would tend to make economic crime more attractive. But as it is uncertain whether aggregate human capital has become more or less valuable, no conclusions can be drawn about the influence of this factor on economic crime.

**g) Effects of a greater "monetization" of economic life.** As economic life has become more "monetized" (i.e. rubles have become more easily convertible into goods and into hard currency in particular), the gains from crime probably increased: it is easier to steal a bunch of paper money equal to the cost of a TV than a TV itself. Also, theft of money normally would be harder to trace. On the other hand, the high rates of inflation observed in today's Russia make theft of money less attractive, though the widespread availability of goods at free-market prices makes converting money into goods easier than in the pre-reform setting. In any case, it is unlikely that increased monetization has had a major influence on crime rates.

**h) Self-Protection by the Public.** With the widespread perception of an increased crime rate and deteriorating law enforcement, self-protection by private individuals can be expected to increase. There is anecdotal evidence that sales of safety devices in Russia, particularly steel doors, have been booming. Another aspect of self-protection is the emergence of private security forces financed by newly enriched entrepreneurs and private corporations. These private security forces are often staffed by former policemen. (Incidentally, the existence of private security employment provides a lucrative alternative for state-employed LEO's, perhaps reducing the opportunity cost of malfeasance in their state jobs.) The burden of protection against crime is shifting from the state to the population during reform: another spontaneous form of privatization. Increased self-protection lowers the attractiveness of crime, even as diminished public law enforcement makes crime a more viable alternative.

4. **Effects of Partial Reforms.**

The increased uncertainty noted above, which probably lowers the opportunity cost of economic crime, is a temporary phenomenon. As reforms progress, uncertainty is likely to be reduced, and the opportunity cost of crime will rise. A partial, half-hearted approach to
economic reform, though, could result in longer-term effects on crime, by postponing the emergence of clear property rights and a stable legal system.

While a wide range of private economic activities are now permitted in Russia, many require a license issued by local governments; often, government officials have considerable discretion in issuing licenses. The lack of standardized, enforced procedures for issuing licenses provides an opportunity for local officials to solicit bribes. Federal officials have similar discretion in issuing licenses required for import-export activities, and there are numerous press reports concerning bribes to federal officials in charge of these licenses.

In general, the Russian economy is covered by an extremely complex web of laws, decrees, instructions, and rules, often in contradiction with each other. Such overlapping and excessive regulation provides fertile soil for bribe-taking and influence-peddling. The virtual necessity to break some laws in order to run a successful private enterprise in Russia also provides a conducive setting for organized criminal activity.

One of the main culprits responsible for a significant share of economic crime in today's Russia is the rather complex taxation system which imposes high marginal rates on private entrepreneurs. Even though reliable data are hard to obtain--for obvious reasons--tax evasion has probably become the most common economic crime in Russia. While a developed market economy could coexist with high marginal tax rates, Russia has not yet developed an appropriate system of tax administration and enforcement.

The government's procrastination until late 1992 in developing the framework for a genuine legal privatization has led to many irregularities and outright violations of the law as individuals attempted to convert state-owned assets to their private ownership--a process known as "spontaneous privatization." The transition of state enterprises into closely-held joint stock companies, limited partnerships, manager ownership, and leasehold enterprises was marked by self-dealing and conflicts of interest. Also, a large number of enterprises remains in state custody. The nominally state-owned property of these enterprises appears to be even less adequately guarded that it was a few years ago. Continued uncertainty over the identities of legal owners reduce the incentives of state representatives to protect these assets, making them easier to steal--or the state representatives might themselves arrange the "theft."

Further incentives for criminal activity are provided by the understandable tendency
on the part of the government to legally validate the existing situation even if it was arrived at through questionable actions. For example, if a former member of the elite privatized his state-owned dacha without necessarily following all the legal procedures, chances are that this dacha will remain in his possession for good. If an enterprise was privatized through a management buyout of questionable legality prior to the adoption of the new privatization law, it is likely to remain the property of its managers. The virtual irreversibility of such homesteading-type actions provides incentives for breaking the law, under the expectation that the assets acquired in this way will not be alienated by future government actions. 28

5. Remarks on Organized Crime.

As with other forms of economic crime, determining the effects of reform on organized crime requires understanding the pre-reform situation. The Soviet state used to hold a virtual monopoly on organized extraction of rents from the Soviet population. Whether or not that extraction was taking place in accordance with Soviet laws, the traditional Soviet nomenclature system had many features of a mafia-like organization, particularly with respect to private, second economy activity. 29 Since private economic activity was generally illegal, entrepreneurs had to pay bribes—protection money—to the relevant party-state officials. An entrepreneur who failed to pay bribes was subject to selective enforcement of the laws, since the party-state apparatus controlled law enforcement and the judiciary.

Economic and political reform has eliminated the monopoly position of the party-state apparatus with respect to rent extraction. The ensuing competition among criminal groups for the newly available rents has resulted in the registered increase in "organized" crime. The perceived increase in organized crime is, in fact, a consequence of its relatively disorganized nature, compared to the pre-reform situation. As the Russian economic situation stabilizes and the remaining constraints on legal private activity are removed, the recorded incidence of organized crime will go down. The absence of illegality in their operations will make entrepreneurs less susceptible to demands for protection. Simultaneously, the "shaking out" among competing criminal organizations will generally result in a more stable monopoly position in certain areas of the economy, thereby lowering
the violent crime that accompanies the quest for criminal control of a market. In the best scenario, a law-bound state will be the force that re-establishes the monopoly position as the taxation authority in most markets.


Whether or not economic crime has been rising in Russia, the crime situation there is quite serious. Moreover, there definitely exists a perception that crime has become more prevalent and dangerous. Both of these factors pose a significant danger for the reform process in the country.

Most importantly, the perceived association between rising crime rates and reforms have already provoked numerous calls for reestablishment of "law and order" by further limiting the freedom to engage in private economic activities, and by other restrictions on individual rights. The worsening criminal situation was one of the most common complaints about reform heard by the present authors in numerous private conversations with Russian citizens in 1991-1993. Fears of crime divert valuable resources, both state and private, into efforts to prevent and protect against criminal activities. In addition, the fear of racketeers surely prevents some would-be entrepreneurs from starting up businesses.

At the same time, the existence of well-developed black markets and even of powerful criminal organizations has a positive side. Some criminal economic activities actually serve to promote marketization of the Russian economy. As we pointed out earlier, the Russian economy remains overregulated and some of the regulations contradict each other. In this situation informal economic activities, which often happen to be illegal, may provide the only workable course of action. To an extent well beyond that found in relatively stable market economies, the reforming Russian economy may require economic crime in order to function at all. For example, bribes paid to government officials allow entrepreneurs to find their way around particularly onerous regulations. Theft of state property may actually help allocate the stolen resources better than the state could. Even the racketeers who extort protection money may at the same time facilitate a certain degree of stability and contract enforcement which the state has not yet provided. Naturally, we are not advocating crime, but in a woefully inefficient formal economic system some economic crimes possess socially-
redeeming features.

Widespread economic crime in Russia is—and always has been—a fact of life. Its existence is at least partially responsible for some of the salient features of the current formal economic environment. While on the margin a reduction in economic crime would probably be beneficial to Russian society, one could argue that it is precisely the ability of the Russian people to circumvent government regulations that prevents the Russian government from resorting to even more comprehensive economic controls.

7. Conclusions.

The appearance of a steep increase in economic crime in reforming Russia is partly due to a reliance on misleading statistics, and on a general misperception of pre-reform conditions. While economic crime in reforming Russia is widespread, it was also pervasive, though widely under-reported, in the former USSR. There has been a shift in the form that economic crime takes in Russia, from such crimes as speculation and violations of plan discipline prior to reform, to tax evasion during the transition. The total amount of economic crime, though, may well be lower during transition than it was in pre-reform Russia, due to the increased legality of many common, private economic activities.

Furthermore, many of the factors that tend to increase economic crime (including organized crime) during the Russian transition are the result of the incomplete nature of Russian market-oriented reforms. The most important of these partial reform conditions is the continuing excessive regulation and taxation of private economic activities in Russia.
Table 1. - The Number of Recorded Crimes (thousands)

<table>
<thead>
<tr>
<th>Category</th>
<th>1985</th>
<th>1990</th>
<th>1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of recorded crimes</td>
<td>1416.9</td>
<td>1839.5</td>
<td>2173.1</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Theft of state and public property</td>
<td>298.4</td>
<td>317.4</td>
<td>452.0</td>
</tr>
<tr>
<td>(excluding small theft)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small theft of state and public property</td>
<td>50.9</td>
<td>34.3</td>
<td>30.7</td>
</tr>
<tr>
<td>Crimes against private property of citizens</td>
<td>388.7</td>
<td>779.2</td>
<td>992.1</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>the theft</td>
<td>319.1</td>
<td>648.5</td>
<td>841.3</td>
</tr>
<tr>
<td>robbery</td>
<td>46.4</td>
<td>95.3</td>
<td>113.9</td>
</tr>
<tr>
<td>Speculation</td>
<td>19.4</td>
<td>26.8</td>
<td>19.1</td>
</tr>
<tr>
<td>Fraud of customers</td>
<td>14.8</td>
<td>19.8</td>
<td>18.9</td>
</tr>
<tr>
<td>Production, sale, storing of home-made hard liquor</td>
<td>48.9</td>
<td>2.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Premeditated murder and attempted murder</td>
<td>12.2</td>
<td>15.6</td>
<td>16.2</td>
</tr>
<tr>
<td>Premeditated infliction of heavy and less heavy bodily injury</td>
<td>64.8</td>
<td>61.2</td>
<td>60.7</td>
</tr>
<tr>
<td>Rape and attempted rape</td>
<td>12.9</td>
<td>15.0</td>
<td>14.1</td>
</tr>
<tr>
<td>Crime related to illegal drugs</td>
<td>15.8</td>
<td>16.3</td>
<td>19.3</td>
</tr>
<tr>
<td>Hooliganism</td>
<td>143.1</td>
<td>107.4</td>
<td>106.9</td>
</tr>
<tr>
<td>Traffic violations of which those resulted in fatality</td>
<td>74.1</td>
<td>96.3</td>
<td>95.6</td>
</tr>
</tbody>
</table>

REFERENCES


Prestupnost' i pravonarusheniia v SSSR (1990), Moscow, Iuridicheskai a literatura.


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ENDNOTES


2. Illegal economic activities are conducive to organized crime because illegally-operating businesses cannot turn to the police for protection against racketeers. Furthermore, organized syndicates need to establish monopolies; i.e., they cannot allow rivals to also extort funds from illegal businesses. See Schelling (1983).


5. Prostitutes were still arrested, though, often for violating the so-called anti-parasite law.

6. The current collection of crime statistics in Russia is also likely to suffer from severe shortcomings.


8. There is a good deal of direct and indirect evidence that such forms of speculation were rampant. For example, commerce and service workers were much more likely to own prestigious consumer durables such as color televisions than were workers with similar official salaries in other occupations. See, e.g., Shlapentokh (1989, p. 80).


11. Private property can also be stolen, of course, but it is presumably more adequately guarded.


13. Economic models of crime are perhaps best-suited to the case of economic crimes. Presumably, economic crimes are more likely to involve premeditated rational “economic” decisions than are crimes such as murder and assault. “Non-economic” causes for economic crimes may also be important, as in the case of kleptomania.

14. Prezupnost’ . . . (1990), as quoted in Shelley (1992). These numbers reflect an important point also made by Shelley: the situation with crime in the USSR had begun to deteriorate prior to perestroika, though the rate of deterioration might have increased after the onset of radical reforms.


21. This argument is similar to that of Becker and Stigler (1974).

22. Self-protection on the part of rich people may make successful crime against them more difficult.


24. Leitzel (1992) argues that there is little or no evidence that average Russian living standards have declined rapidly during the reform years.

25. Developed Western market economies also operate within a framework of elaborate regulations. At the current stage of development of the market economy in Russia, however, complex regulations appear to result mainly in economic crime rather than in an improvement in the functioning of the legal markets.

26. Nonetheless, in a private interview an official of the Russian Tax Service estimated the incidence of gross tax evasion on the part of the 1.5 million registered enterprises at only about 10%. (He was referring only to VAT and excise taxes.)

The incidence of tax evasion will most likely rise as inflation requires more Russian citizens to file an income tax declaration. Currently, people earning above the threshold level of R200,000 per year must file. Inflation in 1992 made this income level rather common. Compliance with the income tax law, never expected to be universal, appears now to be sporadic. It remains to be seen if Russian lawmakers will adjust the tax-filing income threshold for inflation, and if the tax law can be adequately enforced.

27. For a discussion of some of the causes, methods, and consequences of spontaneous privatization, see Johnson and Kroll (1991).

28. The possibility that the government will impose large taxes on these assets in the future, however, tends to reduce the incentive to establish ownership claims.

29. The description of the Soviet "kleptocracy" is drawn from the literature on the Soviet second economy, including Grossman (1977) and Simis (1982).