

# The effects of organized crime on russia's economic reform

[Law](#), [Crime](#)



Angela Tien The Effect of Organized Crime on Russia's Economic Reform

With Russia's extensive history, there is no saying that organized crime is not an issue of this nation. Organized crime promotes the overall performance of the economy in Russia, and it was also a problem during the rise of democratic Russia. Influence from organized crime is harmful internally, yet beneficial to Russia on a global scale. Although the Russian economy thrives as a nascent country experiencing capitalism and democracy, it is deteriorating from the core of their government from corruption. Several factors minister the failure of Russia's economic reform.

Corruption, change in political and economic concepts, and the ever-expanding global economy have fueled the power and influence organized crime has asserted on Russia's economic reform. The impact of organized crime on Russia's economic reform is significant to both the development and adherence of Russia's previous economy by incorporating elements of transitions such as corruption and revolutions in both capitalist and democratic ideals, at the same time establishing and preserving an influential association with the global economy while constituting achievements within it, which reflects on their economy today.

Background: When Stalin proposed freedom to the prisoners in the Soviet Union in exchange for fighting in World War Two, he had upset the entire perennial system of the " Code of Thieves", an underground colony of criminals. There was no knowledge of the repercussion that Stalin's actions would alter. The " Thieves" had evolved into a much more sophisticated group of criminals, after the betrayal of those who enlisted to work with the

government. Later, as the Soviet Union fell apart, it gave birth to the Red Mafia, otherwise known as the Russian Mafia.

Previously, the Cold War contributed to the augmentation of the Russian Mafia too, like Stalin. Ruined, Russia's economy was devastated. Subsequently, with the down fall of the Soviet Union and the Cold War over, the Russian government inherited the world's greatest weapon storage. Using these weapons as a way to profit, the mafia and other forms of organized crime took advantage of the desperate government workers, who turned to crime for cash. The sources for currency in Russia were weapons and poverty-stricken people forsaken from the Cold War scouring for work.

In order to improve the Russian's economy, America introduced the controversial " shock therapy", a method that involves the sudden self-governing free market to release price and currencies, withdrawals of state contribution, and immediate global trade, (Murrell, 1993). Since then, the Russian Mafia has had control over the majority of businesses in Russia. Despite the democratic surge throughout Russia, the promotion of capitalism and democracy was futile. Basically, the Americans introduced Russia with the sudden surge of capitalism.

Unexpectedly, the result was disastrous and the treatment backfired. Starving homeless people wandered through the streets aimlessly looking for a job to pay for food, agreeing to work for cheap labor. Government official turned to crime as a means of making money. Corruption is a major factor that made the economic reform difficult to succeed: Recently, forest fires rage throughout Russia's landscape. Mr. Luzhkov, a politician, was residing in

his estate when he was criticized for the lack of concern he expressed. Almost the entire government responded this way.

Hence, “ Mr. Luzhkov has been derided for behaving like an autocrat, muzzling dissent and allowing corruption to flourish,” (Levy, 2010). Russia’s economy was at stake, partly to the increasing problem of corruption. Corruption has deprived Russia of any success with its economic reform. With the consecutive capital flight each year during the economic reform, Russia’s economy was not stable, nor was it sustainable. Even today, little of that has improved. Billions of laundered rubles are perpetually transferred to bank accounts in other countries annually.

Corruption has suggested that organized crime has played an integral part towards the failure of economic reform. Finckenauer describes the cause of corruption in Russia as “[t]he historical symbiosis with the state [which] makes Russian organized crime virtually an inalienable part of the state”, (Finckenaur, 2001). Russia was left virtually bankrupt, until the fresh initiation of capitalism and democracy. Russia was so corrupt that criminals could bribe their way out of any lawbreaking problem, (Finckenaur, 2001). From Shelley’s observations, we know that roughly a hundred and fifty billion U. S. ollars, perhaps more, are transferred to off-shore accounts, sometimes reaching sums up to three hundred billion U. S. dollars,(Shelley, p. 3). A substantial number of the assets wired to other countries belong to corrupt officials, who did not assist Russia’s economic reform, (Shelley, p. 4, 5).

The increasing number of corrupt officials that collaborates with the Russian mafia is the source to Russia’s faltering economy. Allow a poll taken by

Russian citizens manifest the severity of corruption within Russia: “[t]wenty-three percent of Russians living in urban areas believe that organized crime, not the Government, runs the country. ,(Boylan, 1996). Corruption from government officials numbers were on the rise. At that rate, Russia’s economic reform was next to impossible. There was not a single residue of affluence for Russia to advocate or achieve success of their economic reform. Not merely has organized crime conspired with government officials in the act of corruption, it had somehow obliquely gained control over the flux of money. Recently, a total of 33 billion U. S. dollars, reported by BCC, are being wired to banks aboard, some in the U. S. , (Konstantin, 2010).

This 33 billion “ amounts to 20% of Russia's budget for state and local procurement, or more than 10% of the state budget's income for 2010,” (Konstantin, 2010) It is difficult to prove that control over money had been organized crime’s intentions, but its prevalence over the government through corruption has certainly prompt the unsuccessful result of Russia’s economic reform. The revolution in political and economic concepts allowed organized crime to flourish: Exempt from corruption aside, Russia’s economic reform faced democratic and capitalist issues. Half of the commodities upon a cargo ship traveling to the U.

S. in the 90’s contain illegally purchased grain alcohol. This alcohol was manufactured by an American distiller company named McCormicle Distilling Company Superb Spirits. The Russian mafia dyed the alcohol blue to pass the alcohol on for window washing liquid. They marked these boxes “ industrial”. Smuggling prospered under these conditions. The mafia avoided

taxes and a long process that consumed time, while profiting. Acting as a cover up for the mafia, business companies such as McCormick benefitted from the list of procedures and expenses needed to operate.

Using capitalism and democracy to increase profits, organized crime was in favor of capitalism and democracy. Privatization of organized crime in Russia caused the economic reform to blunder and digress considerably. Finckenaer explains that, " privatization of state property both expanded and solidified the complex relationship that had developed between the state and organized crime", (Finckenaer, 2001). Essentially all private and state-owned companies and subsidies were harmed from the meltdown of the economic reform due to organized crime flourishing in the free market.

From the beginning of capitalism, "[t]he entire Soviet system has long operated with a flourishing black-market supervised and controlled by [organized crime groups]", (Boylan, 1996). While the U. S. government deplete their dollars advertising democratic and capitalist issues in Russia, (Boylan, 1996), the Russians " had people taking advantage of the privileges of a free market—taking in foreign investments, issuing stocks and bonds, making international loans—without sufficient oversight or taxation to generate incomes to pay the bondholders back", (Friedman, 1999).

As a novice towards democracy and capitalism, Russia was going through a phase in which economic hardships and dealing with new ideas was difficult. Subsequently, those with money and authority were quick to assert power and control, namely the organized crime groups and corrupt political figures. " Several experts have estimated that approximately one-third of capital

flight involves illegal activity,” which indicates the organized crime has penetrated the system of economic reform, (Cooper, 2000).

Before the matter of discussing the issues during the economic reform, a similarity should be distinguished between corrupt officials and organized crime lords: illegal capital flight was mostly pocketed by these two groups, for “[r]acketeers and bandits created a multithreaded mafia that remains potent and ubiquitous,” (Schemann, 2009). Furthermore, organized crime utilized the free market to expand in their trade with other countries. For example, oversea corporations from Russian companies belonged to the Russian mafia, which used scams to maximize profits. U. S. law enforcement agencies raided the Pennsylvania headquarters of a TSX-listed company called YBM Magnex International, which turned out to be a front for Russian mafia activity headed by Semion Mogilevich. The shares of YBM were worth more than \$500 million before they collapsed in value virtually overnight. The scam eventually landed Mogilevich a spot on the FBI's Ten Most Wanted list”, (Rosen, 2010). Through this example, it can be notified that the Russian mafia had control over trade and much of trade was illegal.

The Russian government could not hinder the influence the Russian mafia asserted over the trading routes. Much of the money being made through these black-market deals or any other illegal means was profited by the Russian mafia. “ The criminalization of the privatization process has resulted in the massive use of state funds and property for criminal gain”, which in turn, left Russian without any funds, (Finckenaur, 2001). Consequently, none of the profits made were funded into Russia’s economic reform.

Because “ the assets controlled by organized crime give it enormous economic power”, it is safe to say that organized crime accumulated a large portion of the state’s funds, (Finckenaur, 2001). Due to a free market, anyone who had money had the power to make even more, and that is exactly what organized crime took advantage of. Democracy and the capitalist rules induced these criminal groups to escape imprisonment. Authorities had neither power nor evidence to pin any provable crime against them. To this day, these criminals are still profiting from privatization. Privatization led to the transfer of vast wealth to a handful of oligarchs and to rampant corruption,” (Schemann, 2009), leaving only a few people wealthy. Mitigating the security issues with trade, capitalism and democracy, which permitted organized crime to continue their illegal activity, affected the overall result of the economic reform. The global economy ignited the purpose of Russia’s economic reform: Although, organized crime had brought negative effects on Russia’s economic reform, their actions had increased success indirectly to their economic reform as well.

A man named Tarzan from Russia has a business in Miami. Before he opened up this business, he worked for the Russian mafia. Extorting countless business and private companies, the mafia had these people pay protection fees, usually killing those who oppose. Through these connections with the mafia, Tarzan was able to create a new lifestyle for himself. His business was collaborated by the Columbian mafia. He helped smuggled weapons and provides the Columbian with transport they desired. He even sold a submarine to the Columbians.



This vast global trade gave Tarzan the means to make more money and continue prospering in the market. Items and ideas were assimilated to different places, expanding the abounding global trade and economy. Emerging from the Soviet Union with a ruined economy, there was very little economic opportunity for Russia to improve their economy. Russia's economic instability during the 1900's " have increasingly scared off foreign investors; foreign direct investment (FDI) into Russia fell by 45 percent in the first half of 2009 alone", (Mankoff, 2010).

No foreign investors are willing to invest and no countries are willing to participate in trade with it. For this reason, the Russians had no partners to trade with in order to expand their economy. Russia compelled an economic reform in search for an opportunity to extend their economic influence, but how is it possible to have an economic reform when the country's funds are empty? How did Russia revived from its decline? And more eminently, what system or factor granted Russia the aptitude to succeed?

The answer to the latter resides in the system or factor which commenced global trade; this system or factor being organized crime. In the interest of global trade, Russia, which had little resources and industries to offer, was presented with an opportunity to flourish in the market. Privatization was introduced, whether the companies were legal or not. It is recorded that " roughly two-thirds of Russia's economy is under the sway of the crime syndicates", (Webster, 1997). But this does not change the goal of Russia's economy.

Russian revived itself through illegal businesses by the global economy and free market. Whether the motive behind the Russian mafia's trade was with illegal means, capital was flowing and increasing, which aided the promising rise of a global partner. In 1996, the capital flight exceeded 6 billion U. S. dollars, rendering the growth of organized crime's profits excel in other countries too, (Kramer, 2000). Illegal trade with the U. S. has brought many fleeing to the states. The majority of the mafia members had taken posts and paired up with other organized crime groups.

Regarding the trade between the organized crime and others, though it may be illegal, money is flowing in and out of the country. As Friedman mentions, that "[g]lobalization also calls for a reform", (Friedman, 1999), there is sufficient, benign results from Russia's crime groups on the development of the economic reform. The situation that organized crime started had somehow ameliorated the sterile economy of Russia's previous economy, thus improving the economic reform. Nearly all the global trend settlers were previous Russian reformers, who were probably associated with organized crime. (Friedman 1999). Russian organized crime groups were the first to begin the global trade since the Soviet Union. These people are the ones who started the trade between nations in the west. This advances trade and economic prosperity within Russia.

The reform had benefits on behalf of this. With the open trade, the Russians gained the attention they were deficient in by raising the economic awareness around the globe to prolong a successful reform. Henceforth, the Russian economic reform was successful due to rganized crime's initiation of

applying capitalism and democracy. Conclusion: Russia's economic reform can be summarized as well-developed, partly due to capitalism and democracy, as well as, the expansion of a global economy by organized crime groups. Yet the economic reform has partially failed from the pervasion of corruption and capitalism evoked by organized crime. Russia's economic reform is affected substantially by these three factors. On account of corruption, the economic reform did not obtain the necessary requirement of funds that it needed to succeed.

Capitalism and democracy conceded organized crime to flourish and amass the money reserves that was imperative for the motivation of the economic reform. Despite this, capitalism had also paved Russia's road towards the beginning of the free market. In addition, the global economy had given consent for organized crime to uphold recognition in the global economy, delivering Russia the advertisement it lacked to partake in the market. Overall, organized crime has had a rather significant impact on Russia's economic reform.

Russia could emerge one day as a superpower; however, it has not acquired all the necessary components to dominate in the global economy. If Russia continues to administer organized crime through corruption or does not push for economic and political reform again, investors in the foreign market will avoid investment in Russia and Russia, once again, will collapse, this time farther into recession.