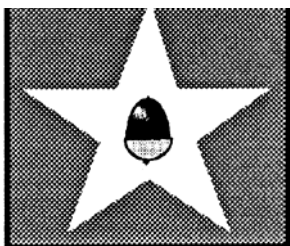


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How Yury Luzhkov Runs Moscow**

December 1999



E105

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Radio Free Europe / Radio Liberty

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How Yury Luzhkov Runs Moscow ¹**

By Donald N. Jensen

There is a ...form of kingly rule in which one has the disposal of all, just as each nation or each state has the disposal of public matters; this form corresponds to the control of a household. For as household management is the kingly rule of a house, so kingly rule is the household management of a city...

Aristotle, Politics, Book III, c. 15

I. Executive Summary

Yury Luzhkov has transformed Moscow from a drab, oppressive colossus into a gaudy symbol of post-Soviet Russia since he was appointed mayor in 1992. More than ever before, Moscow has become the economic, political and cultural hub of the nation. Banks, politicians, cultural and intellectual institutions, information and media centres, fashion trends and popular culture are all centred in the city.

Luzhkov has been instrumental in making Moscow far richer than other parts of Russia. The monthly cash income of the average Muscovite is more than 15 times greater than that of Ingushetia, the country's poorest region. Although the city has only 6 percent of the country's population, in 1998 Moscow accounted for 13 percent of Russia's gross national product and 80 percent of its financial resources. Approximately six billion dollars in foreign investment flowed into Moscow in 1998 - about half the total for the country as a whole. Per capita foreign investment in Moscow in 1998 was approximately \$683 per resident compared to a national average of \$80. As a result of these accomplishments, Luzhkov is widely regarded as an effective manager, a reputation in which he revels. When former Mayor Gavriil Popov appointed Luzhkov to a high post in 1990, members of the Moscow City Council asked him whether he was a democrat, a communist, or, perhaps, an independent. "I have always been loyal to one platform and will remain loyal to one platform," he stated, "The administrative platform." In 1997 the mayor told a British journalist that his role model was former Chicago Mayor Richard J. Daley. ²

Luzhkov's accomplishments have also made him a national political figure. The Mayor is one of the few major non-Communist politicians who have a political base independent of President Boris Yel'tsin. In Luzhkov's first try for reelection in 1996, he received almost 90 percent of the vote.³ In June 1999 polls by the magazine Ekspert, Luzhkov was selected as Russia's most influential businessman as well as its most influential politician. ⁴

As the end of Boris Yel'tsin's term in office approaches, Luzhkov has positioned himself to run for the Russian presidency. Nationwide public opinion polls consistently show him to be one of the leading candidates. At the founding of his Fatherland party in December 1998 Luzhkov cited his success in Moscow in support of his prospects and billed himself as the best man to lead Russia out of its economic crisis.

This article will examine Luzhkov's record as mayor and try to determine whether the way he has run the city might serve, as he claims, as a model for governing the country. It argues that, in addition to Luzhkov's effective leadership, there have been four keys to his success:

- The unique circumstances of the Soviet Union's collapse, which enabled Moscow's leaders to take over the resources previously controlled by the Communist Party.
- City Hall's extensive involvement in business entrepreneurship, activity facilitated by its patrimonial control over property.
- The massive inflow of resources from Russia's regions, the federal government and abroad resulting from Moscow's unique importance in the Russian Federation and Luzhkov's alliance with Yel'tsin, as well as the high concentration of major domestic and foreign businesses.
- The highly criminalized political and business climate in the city, which has brought millions of dollars of "dirty money" into Moscow, but ensured that organized crime plays an important role in policymaking.

The article concludes that these circumstances are unlikely to be duplicated at the national level and, since the August 1998 economic collapse, in large part no longer obtain in the city itself. Thus, Luzhkov's policies would be unlikely to slow Russia's economic decline, ameliorate its acute social problems, or halt the fragmentation and erosion of the state's authority.

II. Yury Luzhkov: a Profile

Short, burly, bald, blunt and tough, Luzhkov, who is what Russians call a real "muzhik" (a man's man), has created a considerable personal following. He cultivates an image of physical vigor to highlight the contrast with the enfeebled Boris Yel'tsin.⁵ He often works late into the night and on holidays. In his spare time Luzhkov boxes, plays tennis or goes horseback riding. (The mayor holds a Master of Sports degree in gymnastics). Russian men seeking to imitate Luzhkov's macho image can begin by purchasing cologne called "Mer" (mayor), which is widely available in the city's retail stores.⁶

The mayor has a reputation of getting things done - even to the smallest detail - never mind exactly how.⁷ Luzhkov has spent lavishly in support of

culture and the arts. He has fixed broken street lamps, filled potholes, repaired sewers, restored crumbling classical facades and ordered shopkeepers to install Christmas decorations outside their businesses. Typical of his micromanaging were the spring 1999 celebrations commemorating the birth of Russian literary hero Aleksandr Pushkin: the city offered Moscow shop owners two official posters of the beloved writer to display in store windows. Any shop failing to display one could expect a fine from city hall. Such is Luzhkov's reputation in Moscow that, according to one anecdote, Luzhkov seeded the clouds outside the city so that Moscow's 850th anniversary would not be marred by rain. In such a centralized system, Luzhkov deals quickly and severely with political enemies. One day after he publicly criticized the Mayor, for example, the premises of former police chief Arkady Murashev were visited by tax inspectors.

To ensure that Moscow has sufficient food, fuel and other supplies, Luzhkov has placed high priority on cultivating good relations with other regions and countries. The city's extensive cooperation with other areas is intended to lessen the traditional hostility of the provinces toward Moscow, especially if Luzhkov needs regional leaders to deliver the vote in a presidential race. By the end of October 1998 Luzhkov had concluded economic cooperation agreements with more than 70 of Russia's 88 other regions. Former Prime Minister Kiriyenko recently alleged that between 1994 and 1998, the Moscow mayor's office guaranteed about almost 2 trillion rubles in city loans to other regions - many of which were interest free and less than half of which have been repaid - as "payment for solving political problems." Moscow's partners abroad include ten members of the Commonwealth of Independent States, Lithuania, Crimea, and unrecognized political entities such as Gaugazia and the Transdniester region of Moldova. The city buys cotton from Tajikistan, while Ukraine sends the city large amounts of food.⁸

At a time when there is deep division within the society over the meaning of "Russia," Luzhkov has understood that there is an ideological void that needs to be filled. He has jettisoned Soviet-era place names and replaced them with their traditional Russian appellations and required Russian language signs on every store in the city. The mayor has erected new monuments to the nation's achievements, such as the Victory Memorial on Poklonnaya Gora, completed on the 50th anniversary of the end of World War II. It has also invested in the construction of Russian-speaking schools in the Crimea. The city has contributed a total of 28 million rubles for the overhaul of the antisubmarine cruiser Moskva at the Nikolayev ship repair facility on the Black Sea and regularly pays for fuel costs for fleet combat exercises at sea.⁹

Moscow's metamorphosis, however, has been accompanied by brazen, corrosive criminality. The city is rife with criminal gangs and protection rackets. Bribery, kickbacks and secret overseas bank accounts are daily facts of commercial life, while car bombs and contract murders are common ways to settle disputes. Neither the corruption nor the violence has been brought under control by the city's law enforcement authorities. In fact, critics accuse city authorities - and sometimes the mayor himself - of

abetting these activities. Complaints of police torture to extract confessions, widespread bribe taking, and the failure of the criminal justice system to police the police are common.¹⁰

Moscow's police are widely accused of harassing the city's poor and non-Russian minorities, especially people with darker skin. International human rights groups have harshly criticized Luzhkov's revival of Soviet-style residency permits, or *propiska*, even though the Russian Constitution and federal law forbids any restrictions on where people can live and the Constitutional Court has ruled against its use three times. Now, a permit is available only to those willing to pay thousands of dollars to buy property or pay certain "fees." A November 1997 municipal decree threatens severe fines for firms hiring unapproved "foreigners" - that is, any Russian citizen who does not have permission to live in the capital. After the outbreak of hostilities in Chechnya in the summer of 1999, Luzhkov signed a decree that directed the deportation of non-registered people from the capital. Moscow police subsequently denied registration to some 10,000 residents - many of Caucasian ancestry - and forced them to leave the city by train or car.

Ascent to Power. Luzhkov rose to prominence during the events leading to the collapse of the Soviet Union, when his managerial experience and political skills enabled him to forge ties with a wide variety of people seeking to open up the political and economic life of the capital. Many of those connections help him rule the city today.

Luzhkov's education and career path mark him as a product of the progressive wing of the Soviet administrative apparatus. Trained as an engineer, Luzhkov graduated from the Gubkin Oil Institute in Moscow in 1958. While a student he took odd jobs at a local housing management bureau. After graduation he secured an appointment at a plastics research institute and eventually became head of the laboratory. From the institute he was elevated to the USSR State Committee for the Chemical Industry, where he remained for 22 years.¹¹ In 1975 Luzhkov turned to politics and was elected to the council of Moscow's Babushkinskiy District. Two years later he became a member of the then virtually powerless Moscow City Soviet (city council). In 1978, he was elected a people's deputy of the rubber-stamp Supreme Soviet of the Russian Federation. Although Luzhkov was a member of the Communist Party, he never belonged to its upper, administrative echelon.

Luzhkov stepped up his political involvement at the advent of Gorbachev's *perestroika*, when he accepted an invitation to chair the city soviet's commission on consumer services. This spare-time assignment drew him into a political and social scene in ferment because of Gorbachev's policies and brought his organizational skills to the attention of his superiors. Late in 1986 the Moscow Party Committee transferred him to full-time government work as one of the deputy chairs of its *ispolkom* (executive committee). Boris Yel'tsin, the city's Party boss, broke the news to him personally the first time the two met. Luzhkov's new portfolio encompassed individual labour activity - one of the few areas where Gorbachev's policies were having positive

results. One of Luzhkov's first acts was to set up a bureau to license cooperative firms for authorized tasks such as catering, parcel deliveries and waste recycling. In the first four months of 1987, Moscow exploded from 4 cooperatives to a thousand, the most in the Soviet Union. Luzhkov especially took under his wing new entrepreneurs who surfaced from the underground economy and ordered his subordinates to cut through the red tape.¹²

In May 1987 an impressed Yel'tsin shifted Luzhkov to first deputy chair of the *ispolkom* and head of Mosagroprom, the agency for supplying the local population with food. Luzhkov loosened tradition command methods by making modest changes in incentives and administrative formulas and acquitted himself well. His boldest experiment was to end the Communist practice of "mobilizing" Moscow residents to truck vegetables in from the fields. Instead, Luzhkov substituted paid pickers, drivers and handlers. The USSR People's Control Committee threatened to have him prosecuted for violating Soviet laws until he talked his superiors into sanctioning the initiative. Luzhkov regretted Yel'tsin's ouster as Moscow Party leader in November 1987. After a year without contact between them, Luzhkov shook the outcast Yel'tsin's hand at the Red Square holiday parade on November 7, 1988. They new men passed several hours in conversation and expressed the wish to work together again.¹³

The election of a new Moscow soviet (Mossoviet) dominated by the anti-Soviet Democratic Russia coalition in March 1990 turned the city's politics upside down. Luzhkov, who declined to run in the election, objected to the populist rhetoric of the insurgent democrats and decided to quit his post. Gavriil Popov, the liberal economist whom the city soviet had made its chair, tried to retain Valeri Saikin, the incumbent head of the *ispolkom*. Saikin, however, had alienated Democratic Russian leaders in the post-election infighting. This gave Yel'tsin, now a member of the Russian parliament and soon to become its speaker, the opportunity to step in, introduce Luzhkov to Popov, and recommend him for the post. On April 26, 1990, Luzhkov was installed as head of the *ispolkom* and became the day-to-day head of the city government.¹⁴

Luzhkov and Popov worked well together for the next 2 years. Luzhkov deferred to Popov on high politics and devoted most of his time to running the city. In the spring of 1991, having won approval for the institution of a popularly elected mayor with powers patterned on those of the Russian president, Popov selected Luzhkov as his running mate. On June 12, the same day Yel'tsin was elected Russian president, Muscovites elected Popov mayor and Luzhkov "vice mayor," with two-thirds of the votes cast. After the August 1991 coup attempt Luzhkov became a member of the Committee for the Current Management of Russia's National Economy, part of the country's interim post-putsch federal governing structures. There he was responsible for the agroindustrial complex, trade, foreign economic relations, and social policy. In 1992 President Yel'tsin appointed Luzhkov Moscow's mayor when Popov resigned, sparing Luzhkov the need to compete in an election demanded by the Mossoviet.¹⁵

III. Supermayoralism

The new rulers of Moscow after the fall of Communism - largely democratic intellectuals and reformist bureaucrats - had trouble establishing their authority and rapidly fell out with one another after they came to power.¹⁶ The victorious coalition disagreed over Popov's plans for the privatization of city housing and commercial assets and how best to reorganize Soviet-era institutions. The Maly Soviet, the smaller standing subcouncil of the 500-member Mossoviet, adopted dozens of resolutions challenging Popov's authority.¹⁷

After he succeeded Popov, Luzhkov addressed the problem by overhauling the city's political institutions. To replace the old, unwieldy Mossoviet, the December 1993 municipal elections, a sideshow to the national parliamentary elections and the referendum on a new Russian constitution, approved the creation of a new city Duma limited to 35 full-time deputies chosen in districts within the city's administrative okrugs (districts).¹⁸

The reform of the city's political institutions in 1993 largely formalized the strong executive authority that Popov and Luzhkov had exercised the previous two years mostly by fiat. The result is a **supermayoral** system - a powerful elected mayor with a large executive apparatus and a weak legislature that allows Luzhkov to act largely without institutional constraints. Although the city charter provides for a mayor and a premier, in practice formal executive authority is fused: when Luzhkov was promoted from Vice Mayor to Mayor, he kept the premiership he had held under Popov.

Despite these elections and the collapse of the Communist Party, the continuity of the current Moscow political establishment with the more dynamic and adaptable fragments of the city's Soviet-era elite was a key fact of Moscow politics. One study of four subgroups of Moscow leaders - city hall "ministers" and subprojects in the executive branch, deputies in the Maly Soviet and the Moscow City Duma created in 1993, found that 23 percent of the ministers had been members of the Communist Party apparatus and 23 percent had been members of the Komsomol. Twenty-five percent of subprefects had served in the CPSU bureaucracy, 28 percent in economic management positions during the Soviet period, and 10 percent each in the Komsomol and the armed forces. However, the proportion of Moscow's new leaders with roots in the Soviet-era nomenklatura, according to available data, is less than that in the federal government.¹⁹

The influence of the mayor's office is further strengthened by the efficiency and cohesiveness of Luzhkov's inner circle, which, in contrast to the people around Yel'tsin, has clear lines of responsibility, shows little signs of internal squabbling, has largely not been marred by scandal and has turned over very little since 1992. The staff comprises several distinct groups, some of which focus on city affairs and some on Luzhkov's national political activities.²⁰

In contrast to the strong mayoralty, the Moscow City Duma has largely been docile – even more so than its predecessor, the Mossoviet. Although it sometimes opposes Luzhkov – members have often criticized the Mayor for favouring his own pet projects instead of improving housing and the schools – the body has usually worked cooperatively with the Mayor. This passivity has been encouraged by the lack of a strong party system. In the December 1997 elections for the City Duma, pro-Luzhkov candidates won 28 of 35 seats on the city council.

Neighbourhood Politics. The same strains that characterized those between the mayor's office and Mossoviet - acrimonious disagreement over the division of powers, as well as partisan and factional rivalries, marked relations between city hall and Moscow's neighbourhood (raion) leaders in 1990-91. As a result Popov reorganized neighbourhood government into ten administrative okrugs. Under the new structures:

- A **prefect** appointed by the mayor would head each okrug. Each prefect would attend cabinet meetings and have the rank of minister. The prefect of the Central Administrative Okrug - the district including the Kremlin, many other government buildings and the largest concentration of Moscow's commercial activity - would hold the rank of deputy premier. It was the duty of each prefect to execute the decrees, orders and directives of the mayor and government of Moscow.
- **Subprefects** appointed by the 10 prefects - 135 in the whole city – would head administrative areas or minidistricts within the okrugs and would “direct and coordinate” the work of local agencies as well as execute the policies of the mayor as well as enforce environmental codes and assist the police in law enforcement. In 1993, a further reform instituted by Luzhkov established an elected municipal assembly of 5 to 7 “advisors” in each administrative area. The advisors would consider neighbourhood problems and approve budget estimates for the minidistrict. Subprefects would still be appointed by the mayor, but with the consent of the municipal assembly. If the advisors refused to approve the mayor's choice, he was entitled to appoint an acting subprefect in his place.²¹

Since their creation, these neighbourhood institutions have largely served as transmission belts of directives from City Hall. The weakness of local movements and parties and widespread popular indifference to and ignorance of local politics have encouraged this one-way flow of authority.²² The Central Administrative Okrug, backed by the financial clout of foreign investors and domestic businessmen that are the bedrock of Luzhkov's support, has received the lion's share of City Hall's time and resources. This happened despite the fact that the population of the central okrug is smaller than all but one other okrug in the city.

Either Good News or No News. Although Moscow residents have access to about 150 newspapers, owned by a wide variety of competing political, industrial and financial groups, Luzhkov uses the city's extensive media holdings, including both electronic and print outlets, to advance his

interests.²³ City-controlled media largely praise Luzhkov, attack his opponents and ignore the shortcomings of the city, the mayor and his government. Luzhkov gives interviews mainly to journalists who support him. Although media outlets controlled by anti-Luzhkov forces are more critical of the mayor, with the exception of the media influenced by Luzhkov rival Boris Berezovskiy - including Russian Public Television (ORT) and the newspaper *Nezavisimaya Gazeta* - even those media are often reluctant to fault the Mayor. Offending city hall can result in retaliation by city hall. In addition to controlling the printing and distribution of many newspapers regardless of ownership, for example, city owns the land on which many media outlets have offices.

The Mayor or his team sometimes directly decide what is to go on the air. Every night, according to a former anchor on TV Centre, her script was vetted by the station for loyalty to Luzhkov.²⁴ However, more frequently Luzhkov indirectly manipulates the media:

- A television channel or publication can be told to report information unfavourable to City Hall, but can attach critical comments to it.
- More frequently, news critical of the Mayor is simply not covered. Pro-Luzhkov media outlets have largely ignored Moscow's financial troubles since the economic collapse. The federal government's problems have been described extensively. Crime and corruption in Moscow are rarely discussed.
- Luzhkov has intimidated the media to refute the charges of corruption. He has published rebuttals in the press, usually stating that his accusers were misrepresenting the facts. The mayor also has turned to the Moscow courts to challenge some corruption allegations, and won every case.²⁵

IV. Relations with Federal Authorities

Essential elements in Moscow's prosperity have been the lucrative subsidies and privileges that it receives from the federal government as a result of its status as the national capital. That relationship has been bolstered by the political alliance between Luzhkov and Yel'tsin, which has enabled the Mayor to act with significant independence.

Moscow's relations with the federal centre are not clearly spelled out in the constitution. Nor, in contrast to most Russian Federation members, are they established by treaty. (Yel'tsin has a representative in Moscow, but the president usually ignores him). Although numerous functional federal agencies are directly involved in city administration, in general the overlapping division of authority between Moscow and the federal government allows the city a significant amount of autonomy. The federal government has also consciously allowed the city to take actions that have

sometimes directly contradicted federal policies, policies to which it has held other regions.²⁶

As a rule, the city resolves issues with the centre through direct negotiation with the federal government. In this manner the city acquired control of its subway system from federal control in 1992. The support of the national government, in turn, has been critical for the implementation of key decisions in the capital, such as the creation of the strong mayoralty in 1991, the reorganization of neighbourhood government and the privatization of city property. Luzhkov also has allies in the federal government on whom he can call when he needs special favours. Luzhkov also uses his access to the Kremlin to lobby on behalf of those commercial banks and other businesses in Moscow with which he has close ties.²⁷

Fiscal Ties. As Russia's richest and most important economic centre, Moscow is the largest single federation contributor to the national budget and one of the federation's few net donor regions. Taxes paid by the city comprise about 30 percent of the federal consolidated budget, and give the city considerable leverage in bargaining with the centre on key issues. It seeks to keep as much of its tax revenue at home as it can and make sure that the money returned by the centre comes with as few strings attached as possible.

Moscow also depends heavily, however, on the money it receives back from the centre - about 15 percent of its total annual revenue. The largest sources of federal support are net mutual payments, which compensate for costs imposed by the central government on the city and to fund certain federal programs, mostly investment in social infrastructure and agricultural support. A 1993 law on the Status of the Capital requires the federal government to provide a special subsidy to cover direct costs caused by Moscow's status as the national capital - many Russian government buildings occupy prime Moscow land without paying rent to the city. Luzhkov allies in the federal government such as former tax minister Georgy Boos and Central Bank Chairman Viktor Gerashchenko can sometimes also lobby for financial support for the city.²⁸

The federal government uses the leverage it gets from subsidizing Moscow to shape the capital's political and economic policies. In 1997, for example, it prohibited Moscow from establishing its own road fund, halted expansion of the Moscow metro and refused to render Moscow assistance in creating a food reserve. The centre, conversely, sometimes needs the support of the Moscow government to implement its decisions.

There have been frequent squabbles, however, over the level of federal financial support:

- In early 1995 the federal government, led by Luzhkov's rival Anatoly Chubays, substantially reduced its subsidy to the city, causing the mayor to accuse the federal government of organizing an economic blockade and trying to "strangle Moscow." The reduction came as Luzhkov and

Chubays quarreled over privatization policy and the Kremlin was warily eyeing Luzhkov's increasing independence and economic power.

- When the federal government in 1997 proposed slashing the subsidy paid to the city to compensate for costs involved in its being the national capital, Luzhkov threatened to raise the taxes of federal ministries based in Moscow.
- After long paying little attention, federal authorities have in recent years complained about the lack of transparency in the city's budget process. Since the federal government uses official budget figures to calculate how much it pays out in subsidies and how much to expect in taxes, the capital's extensive reliance on extra-budget funds distorts revenue sharing calculations, thereby allowing Moscow to receive higher subsidies than it actually warrants.

Personal Relations. The key to Moscow's favoured status in the federal government has been Luzhkov's long-standing, but frequently difficult, alliance with Boris Yel'tsin.²⁹ Although Luzhkov has often criticized the federal government or specific officials, until recently he has largely avoided criticizing the president directly and usually taken care not to upstage him politically. In return, Yel'tsin has usually given Luzhkov a free hand to run the city's economy virtually as he pleases.

Yel'tsin has often defended Luzhkov from criticism, especially charges of corruption. In 1993, when members of the President's crime commission tried to convince the president of Luzhkov's involvement in criminal activity, Yel'tsin reacted quickly. They "dragged in something about Moscow and dumped it on the president's desk," according to one newspaper. "One person who saw this said the president responded by snapping in a slightly irritated voice, 'Moscow is not to be touched.' Or words to that effect."³⁰

Although the mayor has followed policies that contradict federal practice on key issues, Yel'tsin can nevertheless point to Moscow as a showplace of his reforms, especially on social welfare issues such as food and housing. Moscow has also served the Kremlin as a surrogate in dealing with politically sensitive issues, when quick action was needed or when seeking to circumvent the State Duma - for example, when the city gave assistance to Sevastopol and first aid to Budennovsk, at Yel'tsin's behest, during the Chechnya War.³¹

Luzhkov also has long proven useful for the president:

- In August 1991 Luzhkov supported Yel'tsin's defiance of the coup plotters. After rebuffing a direct offer to support the junta, Luzhkov and his pregnant wife, Yelena Baturina, rallied to Yel'tsin's side inside the besieged Russian White House.³²

- In October 1993 Luzhkov provided Yel'tsin with vital political support when the Russian president ordered tanks to suppress the violent insurrection of the Russian parliament. The mayor sat in Yel'tsin's councils of war and cut off the encircled White House's electricity and water. Luzhkov was one of three government agents at the last-minute talks brokered by Patriarch Aleksey II at the Danilov monastery, demanded strict punishment after the insurgent deputies' capitulation, and used local constables and vigilante groups to close offending newspapers. Many communist and patriotic leaders have never forgiven Luzhkov for the allegedly indiscriminate shooting of the insurgents by police loyal to the mayor. ³³
- In 1996 Luzhkov was a leading supporter of Yel'tsin's reelection.

There has been tension between the two leaders when Luzhkov has, from Yel'tsin's point of view, threatened the President's political position. In late 1994 and early 1995, concern that Luzhkov might bid for the presidency led Yel'tsin to initiate a campaign to discredit the mayor. A raid by the Presidential Security Service in December 1994 on the headquarters of Most Bank - one of Luzhkov's main financial backers - was followed by a press campaign denouncing Luzhkov's political ambitions and alleged ties to organized crime as well as Yel'tsin's own criticisms of the mayor for his alleged inability to control crime in the city. ³⁴ Yel'tsin and Luzhkov eventually reconciled, but relations took a permanent turn for the worst in early 1997, after Luzhkov's one-sided election victory and public signs he was positioning himself to succeed the president. Relations further deteriorated in September 1998, when Luzhkov opposed Yel'tsin's effort to reappoint Chernomyrdin as Prime Minister. Moreover, the Kremlin was outraged in May 1999 when Luzhkov's allies in the Duma voted to impeach the president and by Luzhkov's strong defence of Yury Skuratov, the scandal-tainted prosecutor general who was investigating allegations of corruption in the Kremlin. ³⁵

Law Enforcement. Moscow's law enforcement bodies - the courts, the Procuracy, the Federal Security Service (FSB) and the Ministry of Internal Affairs (MVD) - are formally subordinated to the regional branch of the corresponding federal structures, or directly to the federal centre. They are vital instruments of federal authority in the city, though they often compete with one another. The MVD is primarily responsible for police work in Moscow and maintaining order, but a presidential decree authorizes the FSB to combat economic crimes. The MVD Criminal Investigations Division, subordinated to the Moscow Regional MVD, has sometimes been at loggerheads with the Regional Department for Fighting Organized Crime (RUBOP), which answers directly to the MVD.

In practice, federal authorities usually appoint and remove the heads of these law enforcement bodies after consultation with the Mayor, who uses his influence over these agencies to buttress his authority. The city pays a portion of the salaries of the Moscow police force, even though it is organizationally a part of the federal MVD. By agreement with the federal

government, Luzhkov may also have direct control over some special troops during a state of emergency.³⁶ He also may have the loyalties of the armed paramilitary forces created by Moscow's major businesses such as Most Group, which reportedly defended key sites in the city from the armed insurgents during the October 1993 insurrection. The situation is further complicated by the fact that Luzhkov reportedly has created a separate police force under the exclusive control of the municipal authorities.

The Yel'tsin administration has used its leverage over the law enforcement agencies to rein in Luzhkov when he has become too independent.

- The Kremlin fired Moscow prosecutor and Luzhkov ally Ponamarev, GUVVD chief Pankratov and Moscow region FSB chief Savostyanov for being too close to Luzhkov during the Kremlin's 1994-95 campaign against the mayor (Pankratov reportedly sometimes attended sessions of the Moscow government).³⁷
- Anatoly Kulikov's removal as head of the MVD in March 1998 was, according to some reports, partly due to his close alliance with Luzhkov. From time to time the Kremlin has arrested high MVD officials on corruption charges - actions widely seen as warnings to the Mayor.
- Law enforcement officials loyal to the Kremlin compile incriminating material on Luzhkov and his wife, according to press reports.

Ensuring public order during a state of emergency is the responsibility of a wide assortment of armed troops - more than 150,000, according to one estimate - stationed in the Moscow area. (Soldiers from these units are also used elsewhere as rapid reaction units - for peacekeeping duty in Kosovo, or, more recently, in the North Caucasus). The forces are subordinated to various federal agencies:

- To the MVD: the Dzerzhinskiy (ODON) Division (10,000 troops); a Special Purpose Police Detachment (OMON), comprising about 2,500 men; and the MVD RUBOP Special Rapid Reaction Detachment (300 men).
- To the Moscow Regional (City and Oblast) MVD: a special rapid reaction detachment (300 men); a police brigade (5,000 men); the Sofrino brigade (2,500 troops).
- To the Federal Security Service (FSB): the Alfa unit (300 men).
- To the Ministry of Defence: the Taman Motor Infantry and Kantemir Tank Divisions (12,000 and 8,000 troops, respectively), based in the Moscow suburbs.³⁸

Luzhkov began to court these units after the Kremlin raid on Most Bank in December 1994:

- The city began to supplement the salaries of soldiers in the Moscow Region, ensuring that they were higher than those of MVD troops in other areas and, in contrast to federal practice, paid them on time.
- Beginning in late 1996, Luzhkov began providing food to the Taman and Kantemir Divisions. ³⁹
- The city helps sponsor a wide array of education and other programs for MVD troops. Under a special program begun in 1998, many Moscow conscripts serving in units near the capital were given a priority right to enroll in higher MVD schools.

Today, many law enforcement bodies probably have stronger loyalties to Luzhkov than their nominal federal superiors do, or their allegiances are unclear. The Kremlin's uncertainty about the troops' loyalty means that it cannot be sure if they would follow a Yel'tsin order to patrol the streets of Moscow if the Mayor did not approve. ⁴⁰

- MVD Moscow Region troop commander, General Baskayev, who commands the police and Sofrino brigade, is a political ally of Luzhkov, according to press reports. The commander of the Dzerzhinsky Division, General Ovchinnikov, is loyal to Yel'tsin.
- The 5,000 troops of the special brigade of the Foreign Intelligence Service (SVR) based in the city's Teply Stan district are more loyal to Luzhkov and former Prime Minister Primakov (himself a former SVR director), than they are to the federal centre, according to the Russian press. ⁴¹
- Luzhkov's influence on the Moscow branch of the FSB may be so great that, in the summer of 1999, the security service chose to investigate the business activities of Luzhkov's wife, Yelena Baturina, in Ivanovo Oblast rather than in the capital. ⁴²

V. Patrimonialism in One City

Moscow's transformation has less to do with the work of these formal institutions of governance, however, than it does with the patrimonial regime Luzhkov has created. This regime has been a key to Moscow's prosperity and the cause of much criticism. In patrimonial regimes - Moscow today as well as Czarist Russia - the line separating property ownership from political sovereignty either often does not exist or is so vague as to be meaningless. Sovereignty over people and property are combined. As a result, in such regimes official authority is conceived of and exercised as an extension of the rights of ownership - the mayor and the elites act as both sovereigns of the city and its proprietors.

Patrimonial rule in Moscow has three pillars:

- The extensive participation of the city in commercial activities.

- The involvement of Moscow businesses, especially banks, in financing city programs and the commercial use of city funds.
- An opaque budget process marked by the extensive use of off budget funds and high reliance federal subsidies.⁴³

Moscow's patrimonial regime is not unique. It is built upon cultural continuities with the Russian and Soviet past, as well as reinforcing those trends. Moreover, elsewhere in the country governors have tried to build patrimonial systems, though often with disastrous results. In Primorskiy Krai, for example, patrimonial policies by Yevgeny Nazdratenko brought little more than crippling corruption and economic stagnation.⁴⁴ Only in Moscow is the patrimonial system stable and prosperous, largely because of the city's privileged position as the national capital, its unique approach to privatization and substantial foreign investment.

Patrimonial rule in the capital is realized through the so-called "Moscow Group," an elite network of politicians, businesses, media holdings, security personnel, and, critics allege, criminal interests. At its core is the mayor's office and central city bureaucracy, the prefects who run the administrative okrugs, and influential businessmen from the banking, trade, construction and transport sectors. The entire system from top to bottom is answerable to one man: Luzhkov. During the Soviet era, similar networks in cities such as Dnepropetrovsk involved lobbying by the nomenklatura for privileged access to limited resources, goods and services. Today the Moscow Group manages a city in which the line between public interest and private profit is blurred, but has been able – so far, at least - to generate wealth for social welfare and individual gain. By contrast, political participation by ordinary, largely unorganized Muscovites takes place through formal political institutions and processes, where they largely take a back seat to the preferences of the Group.

With scant legal protection for their property rights - there are no effective mortgages, property registration, title security, foreclosure laws, just compensation guarantees, or affordable insurance - independent, small-scale entrepreneurs find it difficult to survive. Property owners who might otherwise use the equity they have built up to finance education, medical needs, business expansion, or other forms of entrepreneurship are forced to rely on the government for their existence. While officials insist this approach encourages the formation of small businesses that are the foundation of a stable middle class, in fact, the system raises many barriers to entry into the market for small and medium-sized businesses through the imposition of onerous licenses, taxes and inspections.⁴⁵

The Luzhkov administration argues that during the city's transition period Moscow cannot realize its potential as the nation's administrative, business, financial and cultural centre without the guiding role of the city authorities in entrepreneurship, especially in the disposition of property. While the

system enables the city to deal effectively with many public welfare issues, make money and crush its political and business enemies, it also creates problems of efficiency and accountability.

Luzhkov's patrimonial stewardship, however, is in the long run likely to be inefficient. It stifles competition and results in businesses being under the control of the Mayor's cronies and organized crime rather than good entrepreneurs. Moreover, patrimonialism inhibits the development of a law-based market that in the long run will help consolidate the city's prosperity.

Moscow is neither economically autonomous, moreover, nor can its government possibly control all the city's resources. Thus, there is continuing tension between the government's patrimonial practices and the need to reassure those businessmen who manage to do business largely independent of City Hall - especially foreign entrepreneurs - that their investments are secure and legally protected. The need to manage this tension is a central dynamic of the city's politics and Luzhkov's job as mayor.

Beginnings. It has often been claimed that the economic origins of the Moscow Group lie in Yel'tsin's 1994 decision to allow the city to follow a privatization policy substantially different from that followed at the federal level. In fact, its origins were earlier, during Gorbachev's perestroika, when Soviet officials - CPSU nomenklatura, government ministers and others - began using their access to state and party property to set up the first private, still formally illegal, businesses. When during the late 1980s Luzhkov was in charge of developing Moscow's new network of cooperatives, joint ventures and other small private businesses, he forged ties with the emerging entrepreneurs around the city, whose profits and resources he later tapped as mayor.⁴⁶ Each part of this emerging, entrepreneurial coalition - leaders of the Young Communist League (Komsomol) who had rejected Soviet ideology, ideological the "democrats," and reform bureaucrats, especially from the city's construction and trade industries - mustered its own set of business structures which eventually provided leaders and resources for Popov and Luzhkov. At the time of the electoral victory of the Popov/Luzhkov team in 1990, the insurgents had expanded their economic base to include real estate, housing, business and gold mining. Some of these commercial ventures remain in business today.

After their election in 1990 a major goal of the new, anti-Soviet officials was acquiring the property held by the Moscow Gorkom (City Party Committee). In the final months of the Soviet Union the gorkom had been trying to ensure its survival by creating a vast business empire of its own (For example, on August 9, 1991 - only a week before the hardline coup - Deputy CPSU General Secretary Ivashko signed a top secret resolution transferring buildings belonging to the Communist Party to a new, limited joint-stock company created by Moscow Party boss Yury Prokof'yev.)⁴⁷

After the collapse of the USSR, the city and the new, independent Russian government divided up many of the Communist Party assets, though with a decided advantage for the federal authorities. The federal government

rebuffed Luzhkov's proposal that party property be put up for sale and the profits divided and that medical facilities be given to the city for social objectives. In March 1992 Yel'tsin assigned 33 properties to his presidential office (nine of which were within city limits) as well as parts of the Soviet Health Ministry. In October 1993 Yel'tsin took over the former CMEA building next to the Russian White House that Popov had sequestered for the mayoralty in 1991. That facility temporarily housed the State Duma before being returned to the city in April 1994.⁴⁸

Whatever potential financial loss the city suffered by the federal takeovers, however, was more than outweighed by Moscow's grabbing of other state property as well as the massive inflow of foreign investment. Most notably, Luzhkov bitterly opposed the federal government's voucher privatization program. When, in 1992 the Russian government began an ambitious and controversial selloff of buildings, factories, mining and oil companies to jump start the free market by putting state-owned assets in private hands, Luzhkov refused to auction off more than 3,000 companies in the city, complaining that Anatoly Chubays, then privatization czar, was giving away state property "like a drunk selling everything in the house." Instead, Luzhkov demanded from Yel'tsin - and after 18 months received - formal approval to pursue his own form of privatization. The city retained ownership of almost all former Soviet property on its territory - which it then leased at high rates to carefully chosen investors for terms of up to 49 years. In this way the city could micromanage land use as well as manipulate rents and prices, and - together with its taxing power - generate vast sums of money.

By late 1995, money was pouring into Moscow coffers from real estate deals, as well as corporate, personal income, and value-added taxes. Especially lucrative for the city - where a many large Russian firms had their headquarters - was a provision in the Russian tax code that required all enterprises to pay their taxes in the jurisdiction where their headquarters was located. For example, the firms dominating Russia's huge energy sector, such as Gazprom, and Lukoil, paid taxes (when they paid them at all) in the capital rather than in distant jurisdictions where production and shipment took place. In 1997 Gazprom payments alone provided 15% (\$1.2 billion) of city revenue.

VI. The City in Business

Today some 2 million Muscovites either work for the city or businesses owned by the city. The public sector accounted for 43.5% of all Moscow employment at the end of 1997, according to the rating agency Fitch IBCA, while an additional 29.5% of all workers were employed by companies that are either controlled by the city or make a majority of their sales to the city.⁴⁹

One form of city entrepreneurship is its diverse stockholdings in real estate, business, and oil. Though city-owned firms must compete with their fully private rivals and many are reportedly not profitable, City Hall often gives

these companies choice locations and other advantages that give them an edge on their rivals.

Real Estate. The city of Moscow controls 36 million square metres of commercial real estate - almost half of all the office space in the city. It also owns property in other Russian regions and abroad. Despite the 1998 economic collapse, that year the city received \$308.6 million in income from real estate deals. The total worth of city-owned property was estimated in 1988 to be about \$25 billion.⁵⁰ In addition to generating income, the city's real estate holdings have enabled municipal authorities to alleviate pent up demand for housing, especially in Moscow's outlying districts. Since he became mayor, Luzhkov has built 32 million square feet of new apartment space, thereby providing housing for the tens of thousands of families who had been on waiting lists for years.

Business. Moscow owns stakes in some 540 companies, including controlling interests in 190 firms and majority interests in more than 50 others. City holdings include luxury hotels, office towers, fast food restaurants, grocery stores, food markets, shopping malls, television companies, textbook publishers, travel agencies, milk and cheese producers, and bread factories. Many subunits of the municipal bureaucracy are themselves involved in commercial ventures.

The city's industrial holdings - twenty-four percent of total portfolio - are central to Luzhkov's industrial strategy. Firms with substantial ownership by the city include:⁵¹

- The carmaker AZLK, maker of the unpopular, unreliable **Moskvich**, which receives subsidies from the city. Under municipal stewardship the factory has begun producing new car models, but sales are dismal and the brand's reputation is poor. In April 1999 the French carmaker Renault began production of Megane cars using space provided by the Moskvich factory. Renault hoped to produce about 2,000 vehicles in 1999.
- The **ZIL** truck factory, a 59 percent share of which was transferred to Moscow in April 1998 by then acting prime minister Sergey Kiriyenko, probably as an incentive for Luzhkov to support his candidacy in the Duma (Luzhkov had publicly called the firm a "victim" of the federal privatization program). The city later extended a loan of \$60 million to support ZIL. Despite the infusion of money, consumers remain uninterested in purchasing the trucks. While all of the approximately 20,000 vehicles ZIL produces are sold each year, the municipal government buys 8 percent and more than half is sold in Moscow. In June 1999 the city signed a second agreement, also with Renault, under which heavy trucks and engines would eventually be produced by ZIL. Beginning in the year 2000 the trucks are to be assembled in Moscow, largely with French parts.⁵²

In addition to these holdings, Luzhkov wants the federal government to pay its debt to Moscow by transferring to the city stakes in some leading defence enterprises, including the Sukhoy design firm, the Ilyushin and Antey aviation complexes, and the Defence Systems Financial-Industrial Group. In May 1999 the city signed a cooperation agreement with the state arms exporter Rosvooruzheniye by which the city-controlled Bank of Moscow will arrange pre-export financing for military enterprises.

After long unsuccessfully lobbying the federal government for the right to manage the Tyumen and Rosneft oil companies, in January 1997 Luzhkov formed the Central Fuel Company (CFC), with Yury Shafranik, formerly Russia's Fuel and Energy Minister, in charge. CFC also comprises an oil refinery, oil product storage facilities, and a chain of filling stations. By mid-1999 the Moscow Oil Refinery produced 60-70 percent of the gas used in Moscow, though most of amount was made from crude oil supplied by Lukoil, Tarneft and other oil traders. In June 1999 the city joined forces with several major oil firms to give it even greater control over its oil supply.

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VII. Moscow, Inc: Sistema

No institution more clearly embodies Luzhkov's blend of politics and business than the city's AFK Sistema conglomerate, the heart of the mayor's authority and the symbol of his vision for Russia.⁵⁴ Some of Sistema's firms draw loans and business from the city, rather than basing their decisions on market considerations. They thereby enable Luzhkov to generate funds for his pet projects, often free from outside scrutiny. (The Sistema-controlled Moscow Bank for Reconstruction and Development, for example, manages city funds and has channelled hundreds of billions of rubles into city investments.) Other Sistema holdings profit from Luzhkov's decisions. Where many city-owned businesses must, despite the advantages they receive from the municipality, compete with stiff competition, Sistema represents crony capitalism at its fullest: many of its subdivisions have been granted near monopolies and face little competition at all.

It is hard for a Muscovite to avoid Sistema's pervasive influence. Sistema's insurance company Lider insures the Moscow metro. The Sistema-controlled Kedr-M is the largest company authorized to sell gasoline in Moscow. The firm's information companies make the metro's magnetic cards and install computerized information booths around town, while its construction arm is also involved in the city's mortgage program and a city-funded program to renovate large apartment buildings.⁵⁵

Sistema's origins in import-export trading in scarce commodities by Moscow elites and continued closeness to the political leadership resemble the far better publicized "Magnificent Seven" financial oligarchs who have clustered around the federal government, bankrolled Yel'tsin's reelection in 1996. Ironically, despite its image as the corporate symbol of the New Moscow, Sistema's large economic, transport, and communication holdings, as well as its status as a virtual state within a state, resemble nothing so much as the

semiautonomous Ministry of the Interior of the czarist government a century ago. ⁵⁶

Origins. Sistema's murky beginnings are related to the evolution of the city's Committee on Science and Technology, in the early 1990s an obscure, cash-strapped Moscow department under plastics engineer and Luzhkov family friend Vladimir Yevtushenkov. In 1993 Yevtushenkov created a joint stock company on the basis of the city agency, also called the Moscow Committee on Science and Technology (MKNT) and reportedly transferred the controlling bloc of shares to City Hall. According to one report, Yevtushenkov used money earmarked to the Moscow military industrial complex for its conversion. ⁵⁷ MKNT had as one of its first profitable activities the manufacture of antipollution devices for trucks and buses.

Yevtushenkov created the conglomerate AFK Sistema by uniting MKNT with a group of Moscow firms that had been engaged in retail trade and financial operations and which at the time were yielding extraordinarily high rates of profit. These companies included the tourist firm Intourist, the Almeko plastics factory, the MBRD (also created by Yevtushenkov), and a little-known firm called Region, run by former Soviet KGB chief Vladimir Kryuchkov and Vladimir Guseynov, former head of the Azerbaijan KGB. Region today provides analytical and security services for Sistema. ⁵⁸

In its first few years of existence, Sistema continued its original buy-and-sell operations in oil, computers, office equipment and sugar. It then began to buy up shares in many Moscow firms that were being privatized by the federal government, especially in industrial sectors such as telecommunications and electronics that foreign investors were shunning. Sistema was also authorized to manage municipal bonds under the cover of financing some of Moscow's military-industrial facilities. ⁵⁹ The key to Sistema's development, however, was the 1995 acquisition by MKNT of a 25 percent stake in the Moscow City Telephone Network (MGTS), which controls 4 million (95 percent) of the city's land-based lines.

After the acquisition of the telephone network, Sistema grew rapidly, gradually deemphasizing financial speculation in favour of building up businesses that would help the Moscow economy. Today Sistema is a \$2 billion financial-industrial conglomerate with more than 150 companies and 50,000 employees in more than ten Russian regions. Sistema owns shares in several cellular phone companies, including partners Deutsche Telekom and Ericsson. IBM, Samsung, and Flemings Group of Britain are also among its foreign partners. In February 1998 Sistema bought all the shares in MGTS floated by Guta Bank, one of the major MGTS partners, thereby consolidating its presence inside the telephone company. In 1998 Sistema made a profit of \$823 million. One Western creditor told the Wall Street Journal Europe recently that Sistema was the only one of his bank's Russian clients that did not default after the August crisis.

In addition to telecommunications, Sistema is involved in the financing of commercial projects, trading securities from major firms such as Gazprom

and United Energy Systems, and tax consulting. It has extensive business interests in construction, retail, microelectronics, oil, travel, and insurance. In addition to Intourist, well known companies in which Sistema has holdings include oil fields in the Komi republic, the high profile Zelenograd Electronics firm, and Detskiy Mir toy store.⁶⁰

Board Chairman Yevtushenkov says he receives no government salary, though he admits he spends most of his time on city projects and holds an official position as Luzhkov's economic advisor. Yevtushenov also sits on a 24-person municipal council that has approved several multimillion dollar loans to Sistema. He denies that he asks for favours from the mayor and says that Luzhkov only discovered he was connected with Sistema in 1997.

Current Sistema president Yevgeny Novitskiy, joined Sistema in 1995. Novitskiy is reportedly also chairman of board of the IVK Company, a computer manufacturing company which he helped found in 1990 and which some press reports allege has links to organized crime. According to Novitskiy, Sistema is 100 percent owned by another firm, Sistema-Invest. That company, in turn, is 40 percent owned by a Luxembourg investment company linked to the investment firm ING Barings. Novitskiy, Yevtushenkov, and several others reportedly hold the remainder of the stock. Novitskiy denies that the city of Moscow holds shares in the firm.⁶¹

VIII. Business in the City

The direct involvement of Moscow businesses in financing city programs is the second distinctive aspect of Moscow's politics. For the city, business participation in city affairs provides the authorities with funds that might not otherwise be available from conventional revenue sources. For business, cooperation with municipal authorities provides opportunities for profit and special favours as well as protection (*krysha*) from competition, criminal elements and the dangers of operating in an unregulated market without an effective rule of law. In recent years businesses donated 72 million rubles toward the cost of the Moscow anniversary celebrations, while Stolichny Bank (now SBS-Agro) purchased equipment for the Interior Ministry's Main Directorate (GUOP) in the Moscow region.⁶²

The most spectacular symbol of the close relationship between business and the city is Luzhkov's extravagant Cathedral of Christ the Saviour, a monument to the victory of Russian forces over Napoleon built on the site of the original cathedral destroyed by Stalin in 1931.⁶³ The current structure was built at a cost of about \$500 million dollars, much of which came from corporate contributions. Financing of the project is the responsibility of the Public Supervision Council, chaired by Patriarch Aleksey II with the Mayor as his deputy. Luzhkov secured many donations by offering favours and commercial privileges to companies as diverse as Rosvooruzheniye - the state arms dealer, the Dutch electronics firm Philips, and McDonald's. On the day Stolichny bank gave 53 ingots of gold for the cathedral's cupola, that bank was awarded the right to manage lucrative bank accounts of the Moscow Orthodox Patriarchate. Under a May 1995 presidential decree, which

expired in 1997, companies donating money enjoyed tax exemptions. Currently, those donating receive tax deductions from their city taxes.⁶⁴

Commercial Banks. Banks not only work with the city to finance specific projects. In the absence of a viable treasury system, the city relies on commercial banks to manage its funds profitably. These relationships link the city, Moscow's financial institutions, and favoured firms in a complicated network of interlocking ownership, formal strategic partnerships, and informal business and personal ties. Luzhkov uses his ability to authorize a bank as an important form of patronage.

Three kinds of financial institutions manage the city's money:

- The Bank of Moscow in which the city has majority ownership. The city controls several board seats on the bank's board.
- Guta Bank, which is owned by the city-controlled Sistema holding company.
- Privately-owned banks, in which the city has a minority stake or no stake at all. In common with federal practice, these banks are "authorized" to handle specific city accounts. In past years they have included Avtobank, Alfa, Aspekt, Vozrozhdeniye, Zelak-Bank, Inkombank, Menatep, Most, Mosbiznesbank, Natsionalny Kredit, Oneksimbank, Orbita, Pervy Industrialny Bank, Promradtekhbank, Rossiyskiy Kredit, Stolichny (now SBS-Agro), and Tekhnobank.⁶⁵

In 1994 Most Bank, long considered the most influential of the city's authorized banks, grew prosperous through its custodianship of key accounts. These involved a significant portion of the city's revenues, including the licensing chamber, the departments of municipal housing, education, architecture, international relations, and special services as well as the culture committee. More importantly, Most controlled the lucrative accounts of the city finance department. (The accounts of two branches of the federal Ministry of the Interior, GUBOP and GUVB, were also at that bank.). In exchange for these business advantages, Most founder Vladimir Gusinskiy, with extensive ties of his own to the former Soviet nomenklatura, gave vital political and financial support to Luzhkov, especially in City Hall's struggle against federal privatization policy.⁶⁶

After the December 1994 Kremlin-backed raid on Most headquarters, the city created its own bank, the Bank of Moscow, to handle city accounts. Most retained only the smaller accounts of the department of education, the culture committee and the traffic police (GAI) and was seriously weakened by the withdrawals.

The Bank of Moscow, meanwhile, quickly developed into one of the dozen largest banks in the country, with assets of more than \$1 billion. According to one estimate, the city channels about 80 percent of its budget funds

through the institution. Although Luzhkov reportedly does not interfere in daily bank operations, he sets the framework for the bank's lending policies and insists that it support small and medium size businesses, provide financial services for city residents, and extend credit to favoured organizations. The bank gave \$3 million to fund Moscow's 850th anniversary festival and has supported the reconstruction of the Gostiny Dvor shopping centre and the Luzhniki Sports complex. The bank also led the syndicate of six banks providing the loan to Zil.⁶⁷

IX. Creative Budgeting

Moscow's budget system, unique in the Russian Federation, is the third critical element in Luzhkov's patrimonial regime. The system is characterized by a high degree of opaqueness and the extensive reliance on off budget funds.

Opaqueness. On the surface, Moscow, just like any city, operates on a budget that is approved by its legislature, the City Duma. When pushed, the duma will supply a copy of the official budget, but officials are generally reluctant to open the city's books. Nevertheless, experts estimated that Moscow's 1998 budget was about \$9 billion before the economic collapse. About 90 percent of all revenues in the official budget come from taxes, especially capital gains, income and value added taxes.⁶⁸ The city divides expenditures into two portions: 90 percent are core operating expenses – for housing, health care, and education. The remaining 10 percent are used for development projects.⁶⁹

Off Budget Funds. Federal law requires Moscow, as a unit of the federation, to have its own road fund, pension fund, medical insurance fund, and employment fund. In addition to these mandated accounts, the city has some 150 additional "charity" or off budget funds for nominal purposes such as ecology, cultural support, hard currency, and each of the 10 administrative okrugs.⁷⁰ These special funds, according to ratings agency analysts, make the city's actual budget 30-40 percent larger than the official figure. Defenders of the practice claim that off budget funds facilitate flexibility in conducting specific operations. However, the city is accountable to no one for their use and they provide fertile ground for abuse. In 1997 the federal Accounting Chamber found that the off budget fund for employment had invested eight million rubles as start up loans for various firms and that almost 190 million rubles had simply vanished. The money was never paid back.⁷¹

Some money for the off budget funds comes from standard revenue streams such as tax collection. Most of the funds, however, come from other sources, including private firms in the form of "contributions" or "fees" paid to the city to keep their businesses open.⁷² The city then deposits these funds in those commercial banks with which it has a close relationship. There they are largely beyond the control of the federal government, the City Duma, and the electorate.

Federal legislation requires that off budget funds be spent for the purposes to which they are designated. Moscow city fathers, however, often do not always observe this requirement. Much of the city's money from off budget funds goes toward commercial and housing projects, or programs that further Luzhkov's personal economic and political agenda. Whereas in other cities massive construction projects such as the shopping development at Manezh Square and the Olympic Village would be financed through a city bond issue, in Moscow financing often comes from behind the scenes contributions by city firms, or little publicized funds at Luzhkov's disposal. Much of the city's assistance to other regions, for example, comes from off budget funds.

X. Illegality as an Instrument of Governance

The origins and development of Moscow's patrimonial system have long been accompanied by allegations of official wrongdoing. Luzhkov has repeatedly denied these charges and few cases against specific individuals have ever been proven. Indeed, from the point of view of the mayor and its other proponents, Moscow's regime is a regime in its own right, not a distortion of something else. Conflicts between sovereignty and property rights usually do not arise because they are one and the same.⁷³

From the point of view of countries where there is a clearer real distinction between political sovereignty and property rights, however, criminality is not a threat to the system Luzhkov has built in his city. It is an integral part of it because:

- Arbitrariness characterizes virtually every aspect of public administration. Municipal authorities violate international, federal and sometimes even their own laws and regulations, when it suits them.
- Corruption is widespread.
- Organized crime groups act as "normal" interest groups which City Hall must take into account when formulating and implementing policy.
- As a result the lawless criminal climate in Moscow makes it difficult for business to survive and prosper without being defended and kept safe by some kind of organized force which provides protection – the so-called krysha (roof). This protection may come from law enforcement agencies, private guard services as well as organized crime.⁷⁴

Fundamental Arbitrariness. City Hall routinely shows little concern for due process in dealing with its citizens. In regimes governed by the rule of law, due process requires that government actions affecting individual personal and property rights follow fair procedures. Such procedures usually give citizens potentially affected by state action adequate notice and an opportunity to be heard about government action that could affect them. If the government plans to take private property, for example, due process

requires not only a hearing to help determine the balance between public and private values, but that the government also provide adequate compensation to an owner for any property it takes.

In Moscow, by contrast, due process considerations play only a minor role in regulating official action. Investors must comply with arbitrary administrative procedures that do not exist in federal law and which are often enforced not to ensure fairness or advance a public interest, but to further the agenda of the city elite. A businessman must prove that the company in which he wants to invest has been audited, that the potential market it wants to tap has been officially estimated, and that the company complies with an ecological survey conducted by experts chosen by the city. The city decides to whom loans may be granted and allows into the capital only those businesses it approves.⁷⁵ Businesses that do not accept the rules laid down by the city or refuse to contribute to Luzhkov's favourite projects are not allowed to make a profit. For example, in 1997 the city threatened Western firms with a fiscal audit unless they agreed to take part in Moscow's rejuvenation.⁷⁶

With the stroke of a pen Luzhkov can dispose of valuable property, and even transfer ownership without judicial process. By decree Luzhkov has unilaterally increased the Moscow's government's stake in some enterprises, sometimes without compensating foreign investors. Under one resolution, additional common shares were issued to the city government, while non-voting preferred shares already held by Moscow authorities were converted into common stock. In a 1994 dispute between the Moscow circus and a U.S. firm that managed its concessions, Luzhkov stepped in and unilaterally decided that the terms of the joint venture agreement were too favourable to the U.S. side. He gave the Russian partner full control over the entire enterprise. The decree contradicted federal legislation on several counts, including Russia's antimonopoly law, which prohibited government interference in the activities of commercial enterprises.⁷⁷

Widespread Corruption. According to a March 1999 poll, about 28 percent of Muscovites said they had experienced official corruption in the city. Sixty-four percent said they faced it while dealing with law enforcement agencies and 34 percent have encountered it while dealing with the higher municipal authorities.⁷⁸ The average Muscovite must pay to secure a meeting with city officials, acquire a license or register a car. City bureaucrats use their control over licenses and privileges to earn large amounts of money for themselves by lobbying for commercial firms or criminal organizations, or simply diverting money intended for city coffers into their own pockets. When in 1997 Luzhkov decided to clean up the notoriously filthy and dangerous entryways to city buildings, for example, he ordered that intercoms be installed on every building in Moscow and gave neighbourhood officials the job of carrying out the decree. While officials went through the motions of inviting all intercom providers to bid in open tenders, in many neighbourhoods the bidding was rigged and contracts went to companies with connections to city officials.⁷⁹

There are two kinds of bribery, each with direct antecedents in Russian political culture:

- Incomes derived at the expense of the government – known in Czarist times as sinful incomes (*greshnye dokhody*) – such as embezzlement of government funds or deliberate falsification of data.
- Incomes obtained at society's cost – traditionally called innocent incomes (*bezgreshnye dokhody*) – including the profits from extortion, money received by a judge to settle a trial in favour of one person rather than another, and tips taken to expedite a citizen's business with the government.⁸⁰

There is no established evidence that Luzhkov or any top member of city government is personally engaged in corrupt practices. The Mayor has been quick to sue anyone who accused him of corruption, and has invariably won. (In August 1999, for example, Luzhkov asked a city prosecutor to file charges against would-be mayoral candidate Mikhail Dvornikov, who accused Luzhkov of illegally privatizing more than 2,000 large Moscow businesses.)⁸¹ The closest the mayor has come to being implicated was in 1991, when, as Vice Mayor, he signed a decree transferring the title to some of the most valuable real estate in the capital to Orgkomitet, a private-joint stock company. According to the company's registration documents, Luzhkov was president of Orgkomitet at the time. Luzhkov publicly denied he was ever actually involved in the firm.

Although the Mayor has never been personally implicated, there is abundant circumstantial evidence that his family and friends have made large amounts of money due to their ties with city authorities. Western construction companies, for example, complain about legislation that forbids moving large shipping containers into the city centre during working hours. Only one enterprise is authorized to unpack large loads into acceptable smaller ones.⁸²

The best known example of such alleged cronyism is the case of Inteko, the profitable plastics manufacturing firm owned by Luzhkov's wife, Yelena Baturina. Inteko owns and operates 5 factories, employs almost 2,000 people and reportedly had a net worth in January 1998 of about \$1 million. In a rare recent public interview, Baturina claimed Inteko does not accept contracts financed by the city government and denied her firm has profited from Luzhkov's influence. However, company headquarters is located in a prestigious downtown building on a floor belonging to the city's building and construction department, which reportedly also charges discount rents to favoured tenants. Inteko manufactures disposable plastic cups and dishes for, among other customers, one of Luzhkov's pet enterprises, Russkoye Bistro – a Russian fast-food chain he founded in 1995 to compete with McDonald's (in which the City also has a financial interest). Inteko also submitted the winning bid for the installation of heating systems in the AZLK

motor vehicle plant and made \$100,000 on the plastic plates and glasses it sold the city for Moscow's 850th anniversary in 1997, according to one critical newspaper.⁸³ That year Inteko also won a million-dollar contract to manufacture seats for the 82,000-seat Luzhniki stadium, another one of the mayor's favourite causes and one of Moscow's largest construction projects in the last 20 years. Baturina has publicly denied that her husband was responsible for her firm winning the contract.⁸⁴ Whatever the reason, Luzhkov probably does not need to give a direct order to his subordinates for them to give business to Inteko. "Everyone is smart enough," one observer who saw nothing wrong with the practice recently told the Moscow Times.⁸⁵

XII. The Politics of Organized Crime

Luzhkov's patrimonial system - especially the symbiosis between the Moscow government and city's commercial interests, and the opaqueness of City Hall's budget practices - is fertile ground for the activities of organized crime groups. Such activity is facilitated by an alliance of gangsters, corrupt bureaucrats, and crooked businessmen that ensure that illicit activities do not operate on the margin of official politics and business. They are the centre of it. In addition, some official law enforcement agencies also exhibit behavior that strongly resembles that of organized crime.

It should be noted that there is no evidence that Luzhkov is a member of any criminal organization. However, from the point of view of the city's governance, the capital's crime groups are so integral to how Moscow is governed that they function much as other, "normal," lobbying groups - teachers, sanitationmen, and banking oligarchs - which the Mayor must take into account when formulating and implementing policy. Since most other interest groups are less organized, less well financed, and often without access to the Moscow elite, the influence of crime groups on the policymaking process is disproportionately large.

History. Until the beginning of the twentieth century, organized crime activity in Moscow was confined primarily to what is called "traditional criminality" such as armed robbery and prostitution. Gangs led by a criminal elite - the so-called "thieves - in-law" (*vory v zakone*) developed a strict code of conduct and a well-organized structure in which members were strictly forbidden to have contact with the state.

During the Soviet era, organized crime was from the outset inextricably enmeshed in the system of power. The Communist Party under Lenin and Stalin enlisted organized crime groups to raise money, impose Party authority through scare tactics, and help destabilize Western economies through the printing of massive quantities of counterfeit money. Under Stalin, mobsters were termed officially «close» to the regime (in contrast with political prisoners, who were considered dangerous to the state). Another centre of organized criminality were corrupt party and state officials who profited through bribes and payoffs from an underground economy.⁸⁶ By the 1960s, some thieves-in-law had become crucial players in the black

market economy, often striking up informal partnerships with local government officials and security organs.⁸⁷

Organized crime groups took advantage of the chaos caused by the breakdown of the USSR to extend their influence in Moscow. Criminal groups profited from running their own small businesses, which often helped supply Muscovites with scarce consumer goods. As the cooperative movement, the first effect of Gorbachev's economic liberalization, gained momentum in the late 1980s, entrepreneurs and petty traders became victims of extortionists who were formerly engaged in debt recovery and shadow business protection. Very soon, new groups composed of former sportsmen emerged on the scene and began to earn money by selling protection to small businessmen and traders at city markets. Official statistics registered a 30% increase in racketeering between 1987 and 1988.

After the end of the Soviet Union in 1991, organized crime expanded even further by taking part in the scramble for former Soviet assets also coveted by the city of Moscow and the Russian Federation government. Crime groups reportedly invested heavily in real estate, import-export firms, banking, the fuel and energy sector, and automobile production. Some of these deals required, at a minimum, acquiescence from the Moscow authorities, since they provided the city with the resources it needed for urban renewal. By this time, crime groups controlled entire Moscow neighbourhoods, though the dividing up of the spoils sometimes brought internal discord or armed conflict with the police or other groups.⁸⁸

Today. Although US and Russian law enforcement authorities define organized crime differently, both the US Federal Bureau of Investigation and the Russian MVD agree that organized crime groups play a major role in Moscow's commercial and political life.

- According to the MVD, in 1994 - the last year for which full data are available - there were 189 active criminal organizations in Moscow, many of which had ties to other regions or overseas. By most accounts the number today is up to 1,500. By 1993, more than 80% of Moscow businesses were already paying protection money or forced to use "silent partners."⁸⁹
- That same year government authorities acknowledged that organized crime accounted for 30%-40% of the country's annual turnover in goods and services. In 1994 the MVD estimated that in Russia as a whole, 40 percent of private business, 50 percent of banks, and 60 percent of state-owned companies were controlled by organized crime. The percentages were probably at least that large in Moscow. In 1996, according to the MVD, organized crime groups controlled 860 firms and 40 joint ventures in the city.⁹⁰ The federal tax police estimated in 1999 that more than one-third of Moscow banks were under the direct or indirect influence of organized crime.⁹¹

Activity. Moscow's organized crime groups seek to profit from rent seeking – exploiting the fact that there exists a demand for goods and services whose availability is strictly regulated or prohibited by law. For this activity to flourish, Moscow's criminal organizations need to establish stable structures, such as a territory or organization, in which they can set their own rules. Alternatively, they need the cooperation of city officials. These strategies substitute for public values such as the rule of law, protection of property rights, rules of competition, and nondiscriminatory regulation, that elsewhere are advanced through general taxation, but which are weak in Moscow's patrimonial system.⁹²

Organized crime in Moscow is generally active in areas that yield particularly large profit margins:

- Trade in goods and services, especially those generally considered illicit and therefore outlawed, such as narcotics, weapons, cultural treasures.
- Trade in goods and services that are not outlawed but are either protected by private property rights, subject to indirect taxation, or highly regulated for political or social reasons. This includes product counterfeiting, illegal copying of software and audiovisual products, smuggling, illicit gambling, prostitution and illicit trade in hazardous waste.
-
- Subsidies and credit fraud that involve the exploitation of the illegal rent-seeking potential offered by the easy availability of public funds.⁹³

Major Groups. Many of Moscow's organized crime groups have their origins either in various ethnic or national groups (such as Armenian, Azerbaijani, Dagestani, Georgian and Ingush), or in the neighbourhood where they were formed (Lyubertsy, Orekhovo-Borisovo, Dolgoprudny, Nagatino, Podolsk, Balashikha, Izmaylovo-Golyanovo, Ivanteyevka, Tushino, Taganka and Krylatskoye). However, many groups have expanded their membership beyond their ethnic group or neighbourhood and are active throughout the city, in other Russian regions, and abroad. Thus, a group name is now usually a method of identification, rather than a mark of ethnicity or locale. It is also a practical trademark that guarantees the "quality" of protection and enforcement services.⁹⁴

Nominally Chechen groups are among the most powerful because of their extensive business activities in the city, alleged ties to City Hall, and financial support for fighters in the North Caucasus. A central gang led by a single, charismatic leader often dominates them. In addition to casinos and hotels, these groups are allegedly active in financial crimes, car theft, drugs, and prostitution. Chechen groups also allegedly control auto sales, nightclubs, warehouses, and construction firms. They are especially strong in the city's Central, Eastern and Western Administrative Okrugs.⁹⁵

The largest and most powerful criminal association originally based in a city neighbourhood is the Solntsevo gang. Founded about 1988, Russian

organized crime experts believe the group bribed local police and ran racketeering operations before branching out into drug trafficking, money laundering and prostitution in Europe, the United States, and Israel. The group is believed to control an extensive array of legal business companies, including the firm Maxim, Arbat International, the Magnex company in Hungary, and Empire Bond in Israel, through which the organization allegedly launders money.⁹⁶ The Solntsevo group has about 1,7000 members, and some group members, according to the FBI and other law enforcement authorities, specialize in assassination. A Russian crime expert has claimed that Solntsevo today unites more than 300 crime groups and is active in the Russian regions, Europe, and North America.⁹⁷ There is reportedly no formal hierarchy within Solntsevo, though key figures are personally powerful and have roles as mediators, arbitrators and ambassadors.⁹⁸

Despite this organizational fluidity, many law enforcement officials believe that Moscow businessmen Sergey Mikhaylov (Mikhas) and Viktor Averin are the overall Solntsevo bosses. Mikhaylov is suspected of links to the Russian mobster Vyacheslav Ivankov, nicknamed Yaponchik, who in 1997 was sentenced to 60 years in jail for extortion by a New York court.⁹⁹ Mikhaylov has denied he has anything to do with the Solntsevo gang. He has been convicted of violating the law only once, in December 1994, on a relatively minor charge, though in 1989 he spent 18 months in a Moscow detention centre charged with racketeering. On the eve of that trial, however, key witnesses changed their testimony and Mikhaylov was released. Despite Interpol and FBI support for Swiss law enforcement authorities, in December 1998 Mikhas was acquitted of charges that he belonged to a criminal organization.

Getting Their Way. Moscow officials need resources that organized crime can provide: money, political support, and the absence of “trouble.” Thus, organized crime groups have several strategies available to induce city officials to do what they want:

- **Bribery.** Crime groups routinely pay bribes directly to officials in order to conduct their business. Groups want customs officials to turn a blind eye toward their activities or protect shipments of contraband, police to give them advance warning of raids or to act against rivals, judges to dismiss cases, hand out light sentences or overturn guilty verdicts.
- **Contributing to Off Budget Funds.** Moscow’s organized crime groups are widely believed to contribute to the city’s off budget accounts. According to press reports, crime groups have invested heavily in Moscow’s real estate boom, especially in the reconstruction of the city’s glittering downtown.¹⁰⁰
- **Legal Partnerships.** Crime groups reportedly have a variety of legal partnerships with the city, especially via AFK Sistema, though Luzhkov has denied the allegations.¹⁰¹ In a November 1998 interview in the

newspaper Le Monde, Sistema CEO Novitskiy said that the arrest of Mikhas halted a \$350 million contract that Sistema was preparing to sign for the repair of Moscow's underground sewage and communications systems. According to the paper, Mikhas' arrest also delayed implementation of a memorandum of agreement with Societe Generale and SCFI Holding, a Swiss company reportedly controlled by Mikhas, which provided for the creation of mutual investment funds designed to attract capital for Sistema projects.¹⁰² Mikhas is also the owner of the Angstrom firm, according to Obshchaya Gazeta, which in turn is, with Sistema, co-owner of an electronics firm in the Moscow suburb of Zelenograd.¹⁰³ Sistema leaders Novitskiy and Yevtushenkov have denied press allegations that the firm SV Holding, controlled by Mikhaylov and Averin and partly owned by IVK International (another company reportedly founded by the two alleged Solntsevo leaders) holds stock in Sistema.¹⁰⁴

More significantly, organized crime groups may rely on alleged advocates within the Luzhkov entourage to attain their objectives.

- Moscow businessman **Umar Dzhabrailov**, a Luzhkov confidant who often accompanies the mayor on trips abroad, has been suspected by the FBI, Interpol and other law enforcement agencies of involvement in organized crime (an MVD report published in the Russian press referred to Dzhabrailov as a "known contract killer and one of a handful of Chechen mafia bosses operating in Moscow.")¹⁰⁵ Dzhabrailov has never been convicted of a crime, however, and claims his ties to organized crime figures are only social. He is general director of the Radisson Slavyanskaya and Plaza hotels, and has business interests in the Danato boutique inside the hotel, the Tikhaya Gavan advertising agency, the Smolenskiy Passazh and Manezh shopping centres, and the Danako Oil company, which controls numerous gas stations around the city.
- Aging crooner **Yosef Kobzon**, Luzhkov's close friend and cultural affairs advisor (as well as a member of the State Duma) reportedly has extensive business interests in oil, sugar and the metals trade. Law enforcement authorities have long considered him active in organized crime, though he has never been convicted and denies the allegations. According to a 1995 FBI report cited in the Russian press, Kobzon and his partner Anzor Kikalashvili allegedly run a criminal organization whose activities include extortion, international arms trading, drug trafficking and counterfeit wine production. The organization is reportedly active in Moscow, New York, Germany and Florida.¹⁰⁶ The US and Israeli governments subsequently denied him entry visas.
- When he served as chairman of the Russia state sports committee, **Shamil Tarpishchev**, now Luzhkov's sports advisor, reportedly was involved in building up the national Sports Fund (NSF) though the importation of vodka and cigarettes, allegedly through murdered mafia boss Otar Kvantrishvili.¹⁰⁷ The vodka reportedly came from the Antwerp

firm of mobster Riccardo Fanchini – now imprisoned in Belgium on bankruptcy fraud charges and suspected by the US Drug Enforcement Agency of drug trafficking. (Fanchini is also alleged to have ties to Dzhabrailov). Tarpishchev has not been convicted of criminal activity and denies any wrongdoing. ¹⁰⁸

Ties between the Solntsevo gang and the mayor's office apparently are extensive:

- Sistema CEO **Yevgeny Novitskiy** is a “treasurer” of the Solntsevo crime group, according to an FBI agent who testified in the trial of Sergey Mikhaylov in 1998. ¹⁰⁹ According to report compiled by the Russian Interior Ministry and FSB and published in Le Monde, Novitskiy allegedly makes no major decisions without the approval of Solntsevo. Novitskiy is, with Luzhkov's wife, **Yelena Baturina**, co-owner of the Almeko Company, which produces plastic goods. ¹¹⁰ Novitskiy has denied he has ties to Solntsevo. Le Monde also reports that Luzhkov has several times tried to suppress reports from Russian intelligence agencies alleging that Novitskiy has links to organized crime. ¹¹¹
- Sistema founder **Vladimir Yevtushenkov** is a friend of Mikhas, according to Le Monde. They two met several times for business reasons during the latter's incarceration in Switzerland in 1998. According to the newspaper Russkiy Telegraf, a firm owned by Mikhas was a founding shareholder of Sistema. ¹¹²
- Controversial media magnate **Sergey Lisovski**, now helping Luzhkov with his possible presidential bid, reportedly used his SV Premier advertising agency to help Michas and Averin create SV Holding. Lisovski has long maintained he is a legitimate businessman, however, and has never been convicted of wrongdoing, despite several brushes with the law.

Effects. Organized crime in Moscow imposes many costs on the city in terms of public security and health, environmental damage, and lost revenues. It has an adverse effect on the legitimate economy, especially on fair competition:, and can foster other criminal activity:

- Laundered money from criminal activities is invested in various legal businesses such as tourism, waste recycling and disposal, construction, banking, and real estate and serves as part of a support structure of organized crime's illicit activities. Firms based on organized crime money compete on unfair terms with legal firms, sometimes driving the latter out of a market.
- By means of bribery and blackmail of government officials and politicians, organized crime distorts competition in favour of its “legal” businesses and eventually tries to create a favourable legal and regulatory environment for its illicit activities.

- Organized crime control of banks and other financial intermediaries not only serves to facilitate money laundering, but also is a potent vehicle for a host of primary organized crime activities such as financial fraud. ¹¹³

Protection Politics. The integration of Moscow's criminal groups with its political structures is perhaps best exemplified by the umbrella of protection – or “*krysha*” - many businesses need in order to survive. A *krysha* may come from law enforcement agencies, private security services, as well as organized crime groups. Its hallmark is that there is no contract binding the parties and payments are made illegally. In return for a large share of its profits, a firm can receive everything from office renovation to the killing of a business rival. This can include ensured personal security, defence from attack and shakedown from another *krysha* or by corrupt law enforcement authorities, handling of payoffs and deals, and intimidation of real or potential enemies and competitors. A *krysha* can also provide legal and business advice from its “legal staff,” banking privileges at criminal controlled banks, assistance with debt collection, and customs clearances. It is unclear how many businesses have a criminal *krysha*, rather than legitimate corporate security, but MVD sources claim that up to 80 percent of Russian businesses pay for some form of protection from all sources. In addition, 30 percent of police officers reportedly maintain *kryshas* for commercial structures. An MVD specialist in organized crime estimated in 1998 that 30 percent of the city's commercial structures paid for protection from the Solntsevo crime group.¹¹⁴

The Interior Ministry's Moscow Regional Administration for Organized Crime (RUBOP), lobbied for by current MVD chief Vladimir Rushaylo in the early 1990s and at the time backed by Mayor Luzhkov, quickly emerged after its creation in 1993 with a reputation as a strong enemy of organized crime in the city. At the same time, in its diverse business interests and effectiveness in providing a *krysha* for some of the city's major businesses, as well as its ties to federal and city authorities, RUBOP resembled an organized crime group itself. Although little is known about the full range of its funding sources, the details that have emerged cast doubt upon the organization as an impartial law enforcement body. RUBOP's operations also exemplify the fate of many nominally law-based institutions operating in the city. ¹¹⁵

Almost from the start, RUBOP was not a fully budget-funded organization. Rather, it received funds from interested private firms and individuals, as well as public money. One source of funds stemmed from Rushaylo's relationship with Aleksandr Kachur, who had come up through the MVD ranks with Rushaylo. In 1992, Kachur established at least three commercial firms. The next year, due to the conflict between his professional and business activities, Kachur ostensibly left the MVD. ¹¹⁶

Kachur then set up the “Fund for the Social Defence of High Risk Occupations.” Despite the fund's name, the true beneficiary of Kachur's activities was Rushaylo's RUBOP. Luzhkov reportedly contributed \$500,000

to the fund's creation. The fund also passed the hat around Moscow's business and political elite. Several prominent financial oligarchs were among the major contributors and the fund reportedly kept its accounts in oligarch Aleksandr Smolenskiy's Stolichny Bank, one of the city's authorized banks. Kachur acted as a liaison between RUBOP and businessmen who were running into problems collecting debts and enforcing contracts. In exchange for contributions to the fund, Kachur arranged to have these issues settled by RUBOP in favour of the contributor. Thus, for its contributors RUBOP acted not as an impartial law enforcement organization, but as a *krysha*.¹¹⁷

In fact, RUBOP's relationship with the Solntsevo crime group does not appear to be above board. An MVD official who cooperated with the Swiss investigation in the Mikhas trial claimed that RUBOP actively pressured him to be uncooperative. First, the officer said, a RUBOP leader offered to pay him not to help the investigation. Failing this, RUBOP officials pressured the officer to testify that the Solntsevo gang was not much more than the figment of journalists' imaginations.¹¹⁸

By the time of the trial, however, Rushaylo was no longer head of RUBOP. Although Rushaylo was largely untouchable throughout RUBOP's early years – apparently due to Luzhkov's protection and his own adept use of kompromat (compromising material) – Rushaylo's financial independence earned him powerful official enemies. He compounded this by engaging in a number of intrigues within the MVD that further roused hostility against him. After an apparent falling out with Luzhkov and MVD chief Anatoly Kulikov – Rushaylo's ties to political rivals Aleksandr Lebed, Aleksandr Korzhakov and oligarch Boris Berezovskiy probably angered Luzhkov – Rushaylo was transferred to another position within the ministry in late 1996. (Kulikov, probably upset by Rushaylo's independence, reportedly ordered 38 separate checks of RUBOP activities).¹¹⁹

Moskovskiy Komsomolets reported on March 30, 1998, seven days after Kulikov's own departure, that the MVD's auditing commission – directly subordinated to the Minister of Internal Affairs – had discovered serious violations of the law in RUBOP's activities. The commission's report allegedly called into question RUBOP's relationship with Stolichny Bank and asked that those involved be punished. However, the article noted, it would be difficult to do so because Rushaylo had long since left the MVD. Rushaylo returned to the MVD two months later, in May 1998, and nothing further was heard of the report. After he joined the government of Sergey Stepashin as Interior Minister in the spring of 1999, Rushaylo removed from the MVD investigative committee those individuals who had conducted the case against Stolichny.

XIII. Managing Crime

Luzhkov has repeatedly denied that he or his friends are involved in organized crime activities. If some of his friends or professional associates have criminal ties, the Mayor has stated, that is their private concern, not

that of the city administration. We can only know the importance of such links in Moscow politics by examining crime groups and city officials in action and evaluating the results. Although much evidence is unavailable, that which is public shows that alleged organized crime groups often – but not always – get what they want from city officials. Luzhkov apparently acts as an arbiter among these groups and other organized interests. As a result, it is often difficult for the Mayor to act solely in the wider public interest.

Sometimes Luzhkov makes decisions that appear to help alleged organized crime interests:

- According to Time Magazine, Luzhkov assisted a friend from his days running the city's fruit and vegetable cooperatives, Grigory Luchanskiy, with Columbus, a Russian company that was given permission to ship a huge volume of copper from Russia without paying export taxes. The metal was to go toward a project to donate colossal statues of the explorer, each one larger than the Statue of Liberty, to the US and Spain. They were reportedly to be created by the well-known sculptor Zurab Tsereteli, another Luzhkov friend. The Vienna-based firm Nordex owned stock in Columbus and Luzhkov, Time reported, and wrote to President Yel'tsin requesting the tax waiver. (According to US and German officials quoted by Time, Nordex, set up by Luchanskiy in 1989 and possibly intended to earn money for the KGB, was involved in money laundering and the smuggling of narcotics and nuclear material across the Baltic.) In any event, no statues were ever built although about 30,000 tons of the metals were exported. Luchanskiy has been linked in press reports to allegations of money laundering through the Bank of New York. Israel, Canada, Great Britain and the US have denied Luchanskiy a visa.¹²⁰
- A Moscow city agency called Glavsnab was allegedly involved with Nordex in a project to build a huge brewery. As part of that deal, according to Time, Glavsnab transferred \$10 million to Nordex, through Elnor, a company in Liechtenstein. Nordex also received a \$13 million interest-free loan from Glavsnab. The Mayor's office refused to comment either on the Columbus project or Glavsnab's relationship with Nordex.¹²¹
- In a much publicized dispute over the ownership of the Radisson Slavyanskaya Hotel, the mayor's office, using its own decrees as justification, authorized the Moscow Property Committee to appoint its own officials to the hotel's board of directors in direct violation of Russian law that prohibits government officials from serving in commercial enterprises. The city then blocked the re-registration of the joint venture, as called for by Russian law in order to extract better terms for itself. Although the hotel's American managing director, Paul Tatum, lived in Russia, the city refused to reissue him a work visa, as was called for in the joint venture documents. After Tatum was killed outside the hotel in 1996, the city appointed Umar Dzhabrailov as managing partner to represent its interests. Dzhabrailov was an early suspect in the case, but charges against him were never filed and the murderer has never been

found.¹²² Three weeks after the killing, the US government revoked the visa it had issued to Dzhabrailov, saying it was concerned he would enter the country to “engage in unlawful activity.”

Sometimes the Mayor acts contrary to apparent organized crime interests. In October 1996 he ordered twenty-eight casinos closed down with no explanation. The thirty remaining gambling houses were ordered to diversify their activities and to open entertainment rooms, bars, and restaurants. The move was made at a time when Moscow officials were trying to raise funds to organize the celebration of the city’s 850th anniversary. Whether they liked it or not, the capital’s casinos – widely believed to be connected with organized crime and money laundering – thus became unofficial “sponsors” of those festivities. Moreover, the closure would allow Luzhkov to claim he had combatted organized crime in the city. According to press reports, casino directors were regularly asked by the city to contribute \$20,000 each month toward the reconstruction of the Cathedral of Christ the Savior. The city reportedly collected up to \$1 million per month. Luzhkov later changed his mind and restored the licenses of ten casinos.¹²³

Most frequently of all, however, the Mayor often appears to leave organized crime groups alone. It is noteworthy that despite Luzhkov’s reputation as a hands-on manager wary of any challenge to his authority, crackdowns on organized crime in the city have been rare. Since Chechen gangs reportedly control much of the city’s car and gasoline sales, and dominate the casino and hotel industries, law enforcement authorities have speculated that the political will to fight these gangs (as opposed to the mass deportation of ordinary residents of Chechen heritage) may not exist, even while they are allegedly financing rebellion in the Caucasus. In another example of City Hall’s neglect, former Prime Minister Sergey Kiriyenko, a possible challenger to Luzhkov in the December 1999 mayoral elections, recently alleged that, despite Luzhkov’s promise to raise enough money from a new levy on casinos to provide for revenue sharing to the regions, the Mayor last year allowed city casinos to pay only one-tenth of the taxes they owed. As of this writing, no casinos have been charged with tax evasion.¹²⁴

XIV. The Lessons of the Collapse

The financial aftershocks of Russia’s economic collapse in August 1998 shook not only the capital’s economy, but also Luzhkov’s claims that he could repeat Moscow’s success elsewhere in the country. For the first time in years, the city was forced to choose from among financing social spending, honoring its substantial foreign debt, and supporting its commercial projects - the massive Manezh underground shopping complex, for example, was believed to be running up huge losses.

The crisis inflicted heavy damage on virtually every aspect of life in Moscow:

- After the federal government’s default in August Moscow’s tax revenues dropped about 50 percent, according to one city official, and some budget funds were frozen in illiquid banks. Retail sales, profits of commercial

enterprises, and real estate prices dropped significantly. Foreign investment in 1998 was \$7.2 billion, \$1.5 billion less than the previous year.

- In September 1999, the city disclosed that real salaries for the first seven months of 1999 were only 62 percent of pre-crisis levels. Extra payments to pensioners and the 50% indexing of employees' salaries in state-run enterprises were practically devoured by inflation. Especially hard hit were jobs in small businesses, trade and banking. Unemployment was up 51% on a yearly basis.
- To make matters worse, beginning in January 1, 1999, a change in the federal tax code provided that huge companies such as Gazprom, Lukoil, Transneft and Rostelecom will no longer pay most of their taxes in Moscow, where their headquarters are, but in the regions where their assets are located. In addition, a change in a revenue sharing formula threatened the loss of a federal subsidy equal to about 2 percent of city revenues.¹²⁵
- In the spring of 1999, a leading credit agency, citing a "significant deterioration" in Moscow's financial condition, dropped Moscow's credit rating. It is now roughly equivalent to that of the federal government.

Response. Luzhkov boasted after the collapse that Moscow could honor its foreign debt obligations. It did so, but with some difficulty, though in dealing with the crisis in general the Mayor displayed his managerial skills. In November 1998 the city called on investors to voluntarily swap their ruble-denominated municipal paper for two-year hard-currency securities with a yield of 14.5% per year. Also that month, Luzhkov imposed limits on all core-operating expenses for the fourth quarter. Under this emergency budget, the city's spending was reduced by 10 percent, while the proportion of net debt expenditures rose to about 20 percent of all spending. The Mayor also announced raises in payments for communal services, water, rent and electricity. In a rare display of independence, the City Duma overruled the Mayor and introduced, beginning July 1, 1999, a 2 % sales tax that would double to 4 % in the year 2000 (Luzhkov had long resisted a sales tax, but then reversed course and supported a 5% tax from July 1). In February 1999 Luzhkov successfully fought off attempts by the City Duma to increase social spending at the expense of the city investment fund.¹²⁶ Four months later the city managed to escape default by restructuring the remaining \$102 million of a \$200 million syndicated loan arranged by Deutsche Bank, West LB, and Societe Generale in 1997.¹²⁷ Moscow's media empire was also hard hit by the August 1998 economic crisis, which forced the city to downsize and reorganize its holdings. Luzhkov's continued financial support – though also diminished because of the crisis, was the key to continued viability.¹²⁸

The crisis also forced changes in the patrimonial system by which Luzhkov had long governed Moscow. For the first time, Luzhkov indicated he was ready to sell prime plots of land, long owned by the city, to raise money.

Faced with a drastic reduction of direct and indirect financial support from the city, AFK Sistema reportedly began using its substantial reserves to bail out its subsidiaries, which were having difficulties competing in the marketplace.

After the August 1998 economic collapse Luzhkov also reportedly tried to shore up favoured authorized banks. The Central Bank (now headed by Luzhkov-ally Viktor Gerashchenko) extended to Most, whose relations with the city had begun to improve, a loan of 900 million rubles, according to press reports. Luzhkov also secured stabilization credits from the Central Bank, secured by the city budget, for Vozrozhdeniye and Mosstroyekonombank. However, the collapse led the city to more carefully examine its relationships with several authorized banks. The city removed troubled ONEKSIMBANK, Menatep, SBS-Agro, Tekhnobank, and Mosbiznesbank, among others, from its list of authorized banks. ¹²⁹

Nonetheless, in some respects the impact of the collapse was less than originally feared. Although many city projects were postponed or cancelled after the collapse, work continued on several – most notably Luzhkov's grandiose City Project, designed to be Moscow's financial district along the lines of London's Canary Wharf. (In response to the crisis, however, City Hall admitted the project would take longer than expected. Officials also indicated that they might seek private investors or sell city land as a way to raise money). ¹³⁰

Confronted with this possibly permanent damage to his own and Moscow's reputation, Luzhkov reached quickly for the national spotlight while trying to strengthen his political base. In late 1998 he created the Fatherland (*Otechestvo*) movement as a launching pad for a presidential campaign. The following summer he convinced popular former Prime Minister Yevgeniy Primakov and his All Russia bloc (*Vsya Rossiya*) to join forces for the December 1999 Duma elections. At the same time, Luzhkov stated that he would defer to Primakov if the latter chose to run for the presidency and he moved the next mayoral election from the summer of 2000 to coincide with the parliamentary contests - an election he was certain to win. Whatever doubts in his own mind these moves may have reflected about the viability of his candidacy and his methods across Russia, they show he has no intention of loosening his hold on his beloved city. They postpone, however, answers to questions about the future of a system that is so much the product of a unique set of circumstances and the leadership of one man.

Endnotes

- ¹ Information available as of November 1, 1999 was used in the preparation of this article.
- ² See, T. Colton, *Moscow: Governing the Socialist Metropolis*, (Cambridge: Harvard University Press, 1995), pp. 557-8.
- ³ *Nezavisimaya Gazeta*, April 30, 1999.
- ⁴ *Ekspert* No., 26, July 12, 1999.
- ⁵ A. Stanley, "The Power Broker," *New York Times Magazine*, August 31, 1997.
- ⁶ J. Matloff, "Russia's Dynamo "Candidate,"" *Christian Science Monitor*, January 5, 1999.
- ⁷ David Remnick, "Resurrection: The Struggle for a New Russia," *New York: Vintage press*, 1998, p. 169.
- ⁸ *Nezavisimaya Gazeta*, July 1, 1999.
- ⁹ B.A. Ruble, "The Rise of Moscow, Inc." *Wilson Quarterly*, Spring 1998, pp. 84-85.
- ¹⁰ *International Herald Tribune*, February 24, 1997. *Moscow Times*, August 31, 1999.
- ¹¹ *Moscow News*, No. 51, 1992.
- ¹² T. Colton, "Understanding Iurii Luzhkov," *Problems of Post-Communism*, Vol. 46, No. 5, September/October, 1999, p. 16.
- ¹³ Colton, *Understanding*, p. 16
- ¹⁴ Colton, *Understanding*, p. 16.
- ¹⁵ *Moscow News*, No 51, 1992, p.7. Colton, *Understanding*, p. 16.
- ¹⁶ D. Jensen, *How Russia Is Ruled – 1998*, *Demokratizatsiya*, Vol. 7, No. 3, Summer 1999, pp. 346-47.
- ¹⁷ Colton, *Moscow*, pp. 662-69.
- ¹⁸ Colton, *Moscow*, pp. 671-78.
- ¹⁹ Jensen, pp. 346-47.
- ²⁰ The Luzhkov circle includes: family members and personal friends; long-time associates who rose to power with Luzhkov; former federal officials; policy experts; and those who are preparing the way for Luzhkov's bid for national office.
- Family Members and Personal Friends: Luzhkov's wife, Yelena Baturina; Yevgeny Yevtushenkov (head of the Sistema holding company); cultural affairs advisor Yosef Kobzon.
- Long-time associates who help Luzhkov run Moscow: Vice Mayor Valery Shantsev (a high-ranking communist until 1991, now responsible for social programs and Luzhkov's likely successor); Deputy Mayor Boris Nikolsky (who supervises municipal services); First Deputy Premier Vladimir Resin (in charge of construction and real estate, and with reportedly cordial relations with Yel'tsin); Vice Premier Yosef Orzhonikidze (former first secretary of the Georgia Komsomol and now in charge of external relations); Prefect of the Central Administrative Okrug Aleksandr Muzykantskiy (an activist in the democratic movement during the Popov era); Press Secretary Sergey Tsoy (public relations).
- Former federal officials: Yel'tsin's former Press Secretary Sergey Yastrzhembskiy; Georgy Boos; ex-federal Interior Minister Kulikov; former deputy head of the presidential administration Yevgeny Sevastyanov.
- Policy and political experts: Former Security Council Secretary Andrey Kokoshin (security issues); largely russophile political analysts such as Aleksandr Tsipko, Konstantin Zatulin, and Andrannik Migranyan; the late nuclear physicist Yevgeny Velikhov.
- Officials preparing Luzhkov's Possible Presidential Bid. In addition to Boos and Yastrzhembskiy, and advertising mogul Sergey Lisovsky. See also, Colton, pp. 685-86.
- ²¹ Colton, pp. 689-92.
- ²² Colton, p. 691.
- ²³ See generally, F.Fossato and A. Kachkaeva, "Russian Media Empires IV," October 20, 1998, at www.rferl.org.
- ²⁴ *Moscow Times*, December 4, 1998.
- ²⁵ V. Razuvaev, "The Time of Independent Princes? Sketches for a Portrait of Yuriy Luzhkov," *Russian Social Sciences Review*, vol, 39, no.1, January-February 1998, pp. 37, 45. Media holdings directly overseen by the city administration include three major organs: *Moskovskaya Pravda* (one of Russia's largest printing press companies, which prints 40 magazines and 128 newspapers, including *Moskovskiy Komsomolets*, *Novaya Gazeta*, and *Segodnya*, and after the August collapse, *Izvestiya*); *Obshchaya Gazeta*; and *Moskovskiy Komsomolets*.

Sistema has a major stake in the Metropolis publishing house (which publishes the weeklies *Literaturnaya Gazeta* and *Rossiya* as well as the publications *Moskovskaya Pravda*, *Vechernaya Moskva*, *Tverskaya 13*, *Vecherny Klub*, *Kultura*, *Kuranty*, *Metro* and *Tsentr Plus*). Sistema also owns the advertising agency *Maxima*, one of the largest in Russia; the television-radio corporation *TV-Sistema*; the consortium *Radio-Centre*, which owns several radio channels, including *Avtoradio* and *M-Radio* in Moscow; the consortium *Narodnoye Kino* (which before the crisis planned the reconstruction of 143 cinemas in Moscow and other cities); a 10 percent stake in the *TV6* television; and the *TV Tsentr Stolitsa* consortium, which went on the air in June 1997 and broadcasts largely to European Russia (the city government initially owned a 67 percent stake of *TV Tsentr*, while *Yevtushenkov's MKNT* separately owned 33 percent). Sistema also owns a pool of Moscow cable networks and a satellite cable project, *METEOR TV*.

Despite these extensive holdings, Moscow's media properties have not yet achieved the kind of audience ratings that could translate into political power, especially as the Duma and presidential elections approached. As a way to gain a toehold in the popular Media Most communications empire, which had launched Russia's first privately owned, foreign built communications satellite in late 1988, Luzhkov began to effect a reconciliation with *Gusinskiy*. After the 1998 collapse Luzhkov returned the city Duma accounts to weakened *Most* bank, while in March 1999 the Bank of Moscow announced it was considering a merger with that bank. The city later opened new accounts at *Most*, into which it reportedly intended to deposit revenues for social programs and those of the Central Administrative Okrug.

²⁶ Colton, 699. V. Mironov, "Lobbies in the Russian Parliament," *Profil*, No. 9, March 1997, p. 2.

²⁷ Mironov, p.1. "Lobbies in the Russian Parliament," *Profil*, No. 9, March 1997, pp. 18-23.

²⁸ D. Treisman, "Fiscal Redistribution in a Fragile Federation: Moscow and the Regions in 1994," *British Journal of Political Science*, Vol. 28, pp. 184-222, 1998.

²⁹ "The Most (Bridge) - Between the Municipal Administration and the Kremlin," *Kommersant' - Daily*, March 16, 1995.

³⁰ *Nezavisimaya Gazeta*, February 11, 1994.

³¹ *Razuvaev*, p. 35.

³² See generally, Y. Luzhkov, *72 Chasa Agonii: Avgust 1991 - Nachalo i Konets Kommunisticheskogo Putcha v Rossii*, Moscow: 1991.

³³ Colton, p. 670.

³⁴ See "Snow is Falling: Will the President and the Government Fall as Well?" *Rossiyskaya Gazeta*, November 19, 1994.

³⁵ *Financial Times*, June 7, 1999. According to official data, Luzhkov met *Yel'tsin* 7 times in 1996, 3 times in 1997, and 4 times in 1998. *Kommersant' Vlast'*, No 15, April 20, 1999.

³⁶ *Argumenty i Fakty*, No 37, September 1998.

³⁷ *Komosomolskaya Pravda*, March 15, 1995.

³⁸ *Moskovskiy Komsomolets*, April 15, 1999.

³⁹ www.apn.ru/19990621.

⁴⁰ "Moscow Internal Troops Will Not Obey Illegal Orders, Moscow TV Tsentr, 0955 GMT May 13, 1999; *Nezavisimaya Gazeta*, *Elektronnaya Versiya*, No. 133 July 23, 1999; *Moskovskiy Komsomolets*, May 13, 1999.

⁴¹ *Moskovskiy Komsomolets*, April 15, 1992.

⁴² *Financial Times*, October 1, 1999.

⁴³ R. Pipes, *Russia under the Old Regime*, 2nd ed., New York: Collier Books, 1992, pp. xxi-xxii; 23.

⁴⁴ "Luzhkov: The Biggest (Business) Man in Moscow," *St. Petersburg Times*, September 15-21, 1997.

⁴⁵ W. Kauffman, "Russia, Pipes, Poverty and Property," *Johnson Russia List*, May 9, 1999.

⁴⁶ "Who Will Be the Next Ruler of Russia? The Slick City Boss, or the Rough-Edged Populist General," *Forbes*, November 16, 1998, p. 156.

⁴⁷ "Land of Behests: CPSU Short Course in Top-Secret Documents," *Komosomolskaya Pravda*, October 4, 1991, p. 4. See generally, I. Bunich, *Zoloto Partii*, (Minsk: *Alkiona*, 1994), p. 290-et seq. *Moskovskiy Sprut: Detektivny Nashikh Dney*, (Moscow: *Palea*, 1993); A. Kol'yev, *Myatezh Nomenklatury* (Moskva 1990-93), (Moskva: *Intellekt*), 1994.

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- ⁴⁸ Colton, pp. 697-98.
- ⁴⁹ Wall Street Journal Europe, May 19, 1999.
- ⁵⁰ "Good Morning, Mr. Mayor," Newsweek, September 5, 1994, p. 38. Forbes, November 16, 1998, p. 155.
- ⁵¹ Thirteen percent of the city's holdings are in trade and restaurants, according to the city property committee, and 8.5 percent in construction firms. See Moscow Times, December 8, 1998.
- ⁵² Moscow Times, December 8, 1998, p. 16. NTV Segodnya June 28, 1999.
- ⁵³ Moscow Times, June 17, 1999.
- ⁵⁴ The best overview of Sistema in the Western press is D. Hoffman, "In Moscow, Business and Politics, Mix," Washington Post, December 19, 1997. See also, "The Meteoric Rise of Luzhkov's System." Business Review, February, 1999, p. 11.
- ⁵⁵ Business Review, "The Meteoric Rise of Luzhkov's System." February, 1999, p. 11.
- ⁵⁶ Pipes, The Russian Revolution New York, Vintage Books, 1990, p. 72.
- ⁵⁷ O. Slabutionskaya, "ORT-erial Pressure," Profil, No. 38, October 1999, pp. 10-13.
- ⁵⁸ Meteoric Rise, 14.
- ⁵⁹ Coulloudon, Moscow City Management, p. 5. Kommersant Weekly, September 23, 1997.
- ⁶⁰ According to one version of how the transaction took place, Luzhkov arranged a deal whereby a controlling stake in MGTS was handed over to the Yevtushenkov's company for \$136 million - \$110 of which was to clear a vague "debt" of \$110 million that MGTS owed the city for "construction." According to another account, Sistema pledged \$100 million of the purchase price for future investment in the phone system - which, once fulfilled, gave the winner the right to double the amount of shares in the company and claim all new shares created, thereby diluting the shares of the other investors. In any event, Sistema was awarded MGTS in a tender run by the city property fund and it is unclear if there were other bidders. Yevtushenkov claimed there were several other bidders. Press reports at the time said there was only one other bidder, also with ties to Sistema. See Hoffman.
- ⁶¹ Hoffman.
- ⁶² Ye. Albats, Will Luzhkov's Cap be the Cap of Monomakh? Should the Good Mayor Become President? Novaya Gazeta, September 22, 1997.
- ⁶³ Matloff, op.cit.
- ⁶⁴ Financial Times, September 17, 1997.
- ⁶⁵ Ekonomika i Zhizn' (Moskovskiy Vypusk), No. 10, May 1999. See also, Ekspert, No. 13, April 5, 1999.
- ⁶⁶ Kommersant -Vlast, No 16, April 29, 1997.
- ⁶⁷ Financial Times, September 17, 1997.
- ⁶⁸ The best overview of Moscow's byzantine budget process is G. Peach, "Moscow and the Financial Crisis," Moscow Times, December 8, 1998.
- ⁶⁹ Pipes, The Russian Revolution, p. 77.
- ⁷⁰ One Moscow think tank has estimated there are 300 off budget funds. Kommersant Weekly, February 17, 1998.
- ⁷¹ Coulloudon, Moscow City Management, p. 4.
- ⁷² Coulloudon Moscow City Management, p. 4.
- ⁷³ Pipes, Old Regime, p. 23. For a more detailed theoretical discussion of stability see S. Bialer, Stalin's Successors, Cambridge: Cambridge University Press, 1980, pp. 129-140.
- ⁷⁴ Centre for Advanced International Studies, Russian Organized Crime, p. 29.
- ⁷⁵ The Globe and Mail, April 9, 1997.
- ⁷⁶ Coulloudon, "Moscow Management," n. 14.
- ⁷⁷ Another prominent example of such action took place in 1993. A Luzhkov decree turned over to the Patriarchy of Moscow property in the elite community of Peredelkino worth almost 20 million dollars. Dozens of families living on the land were evicted without a hearing. In a series of follow up decrees, Luzhkov ordered two city agencies to permit the church to clear the land, exempted any land used by the Patriarchy from rental payments, and ordered the city administration to pay for work "on the preparation of a marble postament (shrine) for readiness for the ritual interment of a saint's relics and its installation in the Church of St. Gregory the Victorious on Poklonnaya Hill." Express Chronicle, May 10, 1999. www.online.ru.
- ⁷⁸ Novaya Izvestiya, June 11, 1999.

- ⁷⁹ "Safe Passage with a Push of the Button," *Business Review*, June 1999, p. 14.
- ⁸⁰ Pipes, *Old Regime*, p. 284.
- ⁸¹ "Dvornikov Nazval Luzhkova Prestupnikom," *Kommersant' Vlast*. No. 33, August 24, 1999, p. 10.
- ⁸² *Moscow Times*, February 16, 1995.
- ⁸³ *Sovetskaya Rossiya*, July 1, 1999.
- ⁸⁴ Stanley, *Op.cit.* See generally, "A Family of Born Leaders," *Moscow Times* February 9, 1999.
- ⁸⁵ *Moscow Times*, February 19, 1999. In October 1991, according to one source, A. Smolensky, head of *Stolichny Bank*, allegedly extended to Baturina a 6 million ruble credit for the creation of a cooperative. When, on her husband's advice, Baturina liquidated the cooperative and created another business without repaying her overdue debt to Smolensky, Luzhkov compensated the banker by authorizing *Stolichny* to service accounts of the Moscow budget. See, www.baturina2.org/sistema2.txt.htm.
- ⁸⁶ V. Coulloudon, "The Criminalization of Russia's Political Elite," *East European Constitutional Review*, Vol. 6, No. 4, Fall 1997, p. 74.
- ⁸⁷ S. Handelsman "Russia's Rule by Racketeers," *Wall Street Journal*, September 20, 1999.
- ⁸⁸ V. Volkov, "Violent Entrepreneurship in Post-Communist Russia," *Europe-Asia Studies*, Vol 51, No. 5, 1999, p. 742.
- ⁸⁹ S. Handelsman.
- ⁹⁰ Centre for Strategic and International Studies, "Russian Organized Crime, 1997, p. 24-25.
- ⁹¹ Ekho Moskvy, *Bankovskiy Vestnik*, July 21, 1999.
- ⁹² J. Van Scherpenberg, "Transnational Organized Crime - The Economic Dimension," unpublished paper, August 1999, p.2-3.
- ⁹³ Van Scherpenberg, pp. 2-3.
- ⁹⁴ *Russian Organized Crime*, p. 28. Volkov, p. 746.
- ⁹⁵ *Russian Organized Crime*, p. 28. A. Maksimov. "Rossiskaya Prestupnost, Moscow: EKSMO-Press, 1998, pp. 162-163. Dr. M. Galeotti, "Post-Industrial Mafias: the Solntsevo and Chechen Examples," Presentation to the FBI/George C. Marshall Centre for Security Studies Conference, "Organized Crime: the National Security Dimension," August 31-September 2, 1999. *Tribuna*, October 2, 1999, p. 3.
- ⁹⁶ *Russkiy Telegraph*, August 27, 1998.
- ⁹⁷ "Former Russian Police Chief Appears Incognito in Mobster Trial, *Agence France Presse*, December 2, 1998. *Ogonek*, No. 40, November 1996, pp. 8-13.
- ⁹⁸ Galeotti, 'Post-Industrial Mafias.'
- ⁹⁹ *Moscow Times*, December 4, 1998.
- ¹⁰⁰ *Russia Journal*, May 24-30, 1999.
- ¹⁰¹ See, for example, *Kommersant-Daily*, May 25, 1999.
- ¹⁰² *Le Monde*, February 26, 1999.
- ¹⁰³ *Obshchaya Gazeta (Electronic Version)*, July 8, 1999.
- ¹⁰⁴ *Novaya Gazeta (Electronic Version)*, Nov, 2, 1998.
- ¹⁰⁵ *Forbes Magazine*, "Murder in Moscow," *Electronic Version*, March 3, 1997,
- ¹⁰⁶ *Novaya gazeta*, No. 40, October 6-12, 1997.
- ¹⁰⁷ CSIS, *Russian Organized Crime*, p. 46.
- ¹⁰⁸ *Novaya Gazeta* No. 40, October 6-12, 1997.
- ¹⁰⁹ *Kommersant Daily*, July 22, 1997. See also, *Bizness Dlya Vsekh*, No. 8, 1998.
- ¹¹⁰ *Novaya Gazeta-Ponedelnik*, October 12-18, 1998, No, 40.
- ¹¹¹ *Le Monde*, February 26, 1998, p. 1. *Russkiy Telegraf*, October 18, 1997.
- ¹¹² *Russkiy Telegraf*, October 18, 1997.
- ¹¹³ Van Scherpenberg, pp. 4-5.
- ¹¹⁴ CSIS, *Russian Organized Crime*, p. 29, 30. *Kommersant-Daily*, July 22, 1997. "Tough Time in Crime Too," *Business Review*, April 1999, pp. 16-17. See generally, Volkov.
- ¹¹⁵ The author is indebted to Robert Otto for his assistance with this section.
- ¹¹⁶ *Kommersant Daily*, September 26, 1996 and October 23, 1996; *Segodnya*, November 19, 1997; *Novaya Gazeta*, July 27, 1998.
- ¹¹⁷ *Kommersant Daily*, September 26, 1996 and October 23, 1996; *Segodnya*, November 19, 1997. *Novaya Gazeta*, July 27, 1998
- ¹¹⁸ *Obshchaya Gazeta*, October 10, 1998' *Segodnya*, December 3, 1998.

¹¹⁹ Kommersant Daily, October 23, 1996. Nezavisimaya Gazeta, October 23, 1996; Kommersant Daily, March 18, 1996.

¹²⁰ "The Russian Connection," Time, July 8, 1996, p. 33.

¹²¹ "The Russia Connection," p 33, 35, 36.

¹²² Novaya Gazeta, No. 40, October 6-12, 1997.

¹²³ Coulloudon, Moscow City Management, p. 5.

¹²⁴ Nezavisimaya Gazeta, July 1, 1999.

¹²⁵ Moscow Times, December 8, 1999.

¹²⁶ Moscow Times, December 8, 1998.

¹²⁷ Washington Post, May 9, 1999.

¹²⁸ In the print media the crisis depressed the advertising market, partly due to the exodus of foreign advertisers. Negative developments also included a huge jump in printing and production costs, failures in distribution, widespread layoffs, and drastic salary reductions for those who kept their jobs. Moscow's television broadcasters also were hit hard by a massive drop in advertising. Although TV Centre, created to further Luzhkov's presidential ambitions, had spent large amounts of money trying to build up a significant national presence, it failed to do so before the crisis gutted its revenue base and strained City Hall's ability to support it. Instead, Sistema's lucrative banking and telecommunications holdings were believed to supply the cash to run the channel. Despite the city's own budget problems, when the network ran into serious financial problems at the end of 1998 Luzhkov pledged to help it from the municipal budget.

¹²⁹ Ekonomika I Zhizn 5/99. Ekho Moskv, Bankovskiy Vestnik, July 22, 1999.

¹³⁰ Moscow Times, December 8, 1998.

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