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## Article

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# Commercialization of Police and Shadow Economy: The Russian Case

By Leonid Kosals and Anastasia Dubova\*

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Recently, J. Beckert and F. Wehinger (2011) argued about the importance of studies of illegal markets for economic sociology. When approaching this field one should keep in mind that the dividing lines between legal and illegal markets are often blurred. It is especially true for transformation countries with underdeveloped institutional setting and a lack of traditions of democratic legal regulation of economic behaviour.

In this paper we consider these blurred boundaries taking an example of the shadow economic activities of police officers in Russia, in which the legal and illegal components are closely interconnected. We use a body of literature and empirical research compiled in the 2000s in Russia to shed some light on the off-duty activities of police officers as economic actors.

## Studies of police involvement in shadow economy

The police are expected to provide law and order as a public good for society. In other words, the police have to be a part of the “function of pattern maintenance”, in terms of T. Parsons (Münch, 2006; Zafirovski, 2006). If the police are a tool for maintaining law and order, they contribute to social integrity and equilibrium. Meanwhile, in many transformation countries this tool for normative regulation has turned into a vehicle of institutional subversion due to extensive police involvement in the shadow economy. Moreover, in many transformation countries, including Russia, this involvement is widely spread in the fields of business and politics. This controversial character of the police activity presents a complex task for policy-making and an interesting research question for economic sociology. Below we summarize publications investigating police corruption and moonlighting in Russia as a socially embedded phenomenon.

Conventionally, in most of the studies the regular actors in informal and shadow economies are viewed as entrepreneurs and/or regular citizens including small business people, ethnic entrepreneurs and immigrants (for a comprehensive overview of current approaches of economic sociology to informal economy, see: Portes, Haller, 2005). As for the police officers, they are mostly treated as representatives of the government combating against illegality or, conversely, as corrupted violators of the rules. They are not seen as the regular market actors though in many developing and transforming societies, including Russia, they are heavily involved in informal and shadow economies.

There are four research groups in Russia conducting nationwide empirical socio-economic studies of police corruption and moonlighting. The first group is at the independent think tank INDEM Foundation (G. Satarov, V. Rimskiy, U. Blagovezhensky, I. Vinukov, S. Parhomenko, M. Krasnov, M. Levin, K. Golovschinsky). Their research is focused on corruption including corrupt police practices. They investigate both petty corruption and executive corruption of senior public officials.

The second group works at the Institute for the Rule of Law at the European University in Saint Petersburg (V. Volkov, E. Paneyakh, K. Titaev, A. Dzmitrieva, M. Pozdnyakov). The main focus of their research is on law enforcement practices of the police, courts and other bodies (including the use of law by the police as a tool for making money), and the institutional restrictions of effective law enforcement in Russia.

The third group is conducting research at the Analytical Centre of Yuri Levada (L. Gudkov, B. Dubin). They concentrate on the issues of “privatization of police” in Russia, its involvement in shadow economy and institutions provoking the market activities of the police.

The fourth group is based at the National Research University – Higher School of Economics (L. Kosals, D. Strebkov, E. Berdysheva, T. Karabchuk, A. Dubova, M. Kravtsova, A. Belyanin). It cooperates with their colleagues from the USA, Germany, Bulgaria, and Kazakhstan. These studies include sociological surveys and lab experiments into cor-

ruption as well as analysis of the conventional economic activities of the police, such as off-duty employment (body-guarding, legal consultancies etc.).

## The scale and scope of police involvement in shadow economy

According to the Russian Federal legislation on the law enforcement agencies, police officers in Russia are not supposed to earn additional income to that of their police salary, excluding activities in the fields of art, academic research, and teaching. Meanwhile, police officers carry out a large number of commercialized activities, both legal and illegal, including: guarding/security services for commercial companies, legal consultancies, paid services for criminal groups, entrepreneurial activity, patronage of business entities, violent takeover of businesses and private residences, creating/erasing criminal files, collecting and selling of datasets and other professional information, selling of confiscated drugs, arms trafficking, racketeering, collecting bribes from people and legal entities, etc. (Kolennikova et al., 2002). Corruption is only an element of this plethora of activity.

Involvement of the police in the shadow economy in Russia has not been decreasing over time. According to a survey of more than 2000 police officers in eight Russian regions, nearly half of them, on average, are involved in illegal economic activity (Kolennikova et al., 2002). Among the surveyed regions, Moscow was found to be "highly commercialized" with two thirds or even three quarters of respondents earning off-duty income. The rest of the surveyed regions were acknowledged as "moderately commercialized" (Nizhny Novgorod, Irkutsk, Rostov, Krasnodar, Omsk, and Voronezh) with 36-45% of police officers involved in shadow economy. No regions were found to be completely non-commercialized.

According to data collected by L. Gudkov and B. Dubin (2006), the involvement of police officers in shadow activity is even higher: more than 80% of respondents make their off-duty income. Not all of these activities are strictly illegal but even legal activity of this kind creates a breeding ground for corruption and misconduct. The most common sources of additional income were guarding services (reported by 58% of respondents), work as unlicensed taxi-drivers (36%); paid services for individuals and companies (18%); collecting informal payments in lieu of penalties (17%) and bribe-taking (14%). It is remarkable that more

experienced and skilled officers are more involved in corrupt activities.

Corruption generates the largest part of the additional income of police officers (Kolennikova et al., 2002; Satarov et al., 2005), providing 80% of all off-duty income in 2001. A dramatic increase in police corruption in relationships with business was observed in 2001-2005 (Satarov et al., 2005). The latest studies (Satarov et al., 2011) also demonstrated an increase in petty corruption within the police.

Police involvement in the shadow economy is not just a result of the deviant behaviour of some "bad cops". It is highly institutionalized activity. This means that big groups of highly-ranked officers and heads of departments are involved permanently. They can manipulate the running of their departments to generate revenue from "clients", regular citizens or business people. A good example is the creation and deletion of criminal files against business people. As Volkov, Paneyakh and Titaev (2010) reported, in the 2000s one could witness a rapid growth of registered economic crimes (fraud, embezzlement etc.). However, this growth means high numbers of the commencement of proceedings while only from 20 to 40% of these criminal files reach a court trial, and less than 20% lead to convictions. This is in stark contrast to such crimes as murder or rape, for which the law enforcement system almost does not allow the dropping of cases that have been initiated.

These conclusions are confirmed by the results of other studies. At the beginning of 2000s, 23% of interviewed police officers pointed out that businessmen donate money into special funds to assist law enforcement agencies, to purchase computers and office equipment (46%), to get paid part-time work (20%). Only 37% of police officers reported on the absence of support from businesses (Kolennikova et al., 2002).

In one sense this means that legal procedures in contemporary Russia are often "economically embedded" (cf. "social embeddedness" by Granovetter, 1985). They are not designed to maintain law and order but rather focus on the private interests of certain groups of law enforcers. It also shows the commercialization of the professional relations between individual officers and even between various departments. For example, if an investigating officer wants to transfer a criminal file to the court, he/she sometimes has to pay for this. Otherwise, this file will remain in pending. The literature does not contain a complete list of reasons why police officers have to pay in one

case and do not have to pay in others, nor is there any information regarding the extent of commercialization. However, there is no doubt that this practice is widespread and informally institutionalized.

### Socioeconomic causes of police involvement in shadow economy

Police involvement in shadow economy has been widely studied during recent decades. Criminologists and economists were involved in this kind of research. Economists mainly focus on measuring corruption, while criminologists investigate the social roots of police moonlighting. Many criminological studies are close to economic sociology though criminologists normally consider the police shadow economy as deviant behaviour. There are three general approaches suggested by criminologists for understanding of the fundamental reasons for police corruption: the *rotten apple approach*, the *rotten barrel approach*, and the *rotten orchard approach*.

The *rotten apple approach* postulates that market activities were brought to the police by defected individuals, or so called "rotten apples," as a result of an adverse selection process. This approach derives from the popular trend within the police to accuse 10% of officers in 90% of incidences of shadow economy (Alpert, Walker, 2000; Punch, 2003). Police management usually adheres to this approach because it allows them to hide the true extent of the widespread corruption networks within the police. Therefore, when incidence of economic activity is revealed, the problem is resolved by punishment of several "guilty" officers (Sherman, 1974; Goldstein, 1975; O'Connor, 2005).

The *rotten barrel approach* explains the occurrence of shadow economy within the police as a group phenomenon. It is assumed that "newbies" arrive to the police "clean" and then are "infected" during the socialization process (Sherman, 1985; Stern, 1962; Punch, 2000; Stoddard, 1968). According to this approach, the shadow economy activities are embedded in the group norms, i.e. organizational culture, which is determined by a combination of professional obligations such as fighting criminals, supporting victims and providing a lay-low attitude because of excessive regulation and bureaucracy (Skolnick, 1994; Westley, 1970; Herbert, 1996; Brown, 1988). As a consequence, officers view themselves as a minority group and adhere to the principle of "us versus them," which leads to a high level of organizational closure and compli-

ance with a code of silence (Stern, 1962; Lamboo, 2010; Kappeler, Sluder, Alpert, 1994; Westley, 1970; Klockars, Ivcovic, Harberfeld, 2006). Hence police culture stimulates the expansion of the shadow economy and carefully hides it.

The *rotten orchard approach* is focused on the environment in which police operate. According to this approach, the shadow economy is stimulated neither by rotten apples nor by rotten barrels but by the defects of the formal and informal institutions within society – rotten orchard (Punch, 2003). The spread of shadow economy among police officers is primarily determined by the inclination of the population and the government towards bribery, by a lack of moral principles within society (Kurkchian, 2001; Stern, 1962), by state political regime and by the eroded law enforcement system (Newburn, 1999). Therefore, policemen consider their participation in the shadow economy as a socially acceptable activity.

The outcomes of the Russian studies (Kosals, 2005; Paneyakh, 2011; Paneyakh, Titaev, 2011) indicate that these approaches can be applied to provide explanations of shadow economy in the Russian police. There are five major causes that can be found in the literature.

First, at the very beginning of economic transformation in Russia there was a boom of organized crime. In 1992-1995 the number of murders (including attempted murder) increased from 16,000 to 32,000 thousand a year and the number of contract killings increased from 102 to 560 registered cases (Lokk, 2003). There had emerged a huge demand for security services: according to the data of Vadim Radaev (2000) obtained from a survey of Russian enterprise owners and managers, more than a half of the surveyed firms spend some of their income on the safety and security of their business. Two thirds of them spend 10-15% of their income and one third spend about 30% of their income. Of course, this increasing demand stimulated involvement of the police into the market activity.

Second, police officers suffered from their relatively low wages and poor working conditions. This was due to the lack of state funding and neglecting of the police's basic needs in the 1990s. In this situation, many law enforcement officers moved on the business side of the process. Criminalization of the elite also contributed to the illegal activities of police.

Third, the Russian ruling class establishing conditions for the privatization of former state property put law enforce-

ment agencies under strict control. As a result, on the one hand, the police were not allowed to participate directly in the privatization. On the other hand, they were instrumentally used in the process of privatization, and therefore, get involved in collection of information, protection services, etc.). It created favourable conditions for business activity within law enforcement agencies.

Fourth, emergence and development of police economic activities was encouraged by the destruction of old Soviet ethics in law enforcement agencies, which were largely (though not entirely) based on the Communist party affiliation and Soviet ideology. The decay of these institutions, the inevitable transition to a market economy and democracy led to the erosion of the former professional code. Instead, there was a spontaneous emergence of market ethics: "you've got straps, a head on your shoulders - go out and earn your money" (quoted from an interview with a middle-ranked officer in Moscow, 1993).

Above all, there was a fast expansion of the code of silence within the police, which can be defined as a set of informal and unwritten rules and norms that delineate acceptable behaviour and prohibit whistle blowing (Ivkovic', Klockars, 2000). The code of silence forces officers to place corporate integrity above honest behaviour (O'Malley, 1997) and even if a policeman is not involved in shadow economic activities, she/he normally complies with the code of silence (Sherman, 1978). This code is a characteristic of the police both in developed and transformation countries. Factually, it supports hidden corruption and misconduct (Skolnick 2002), which is especially true for the transformation countries with weak public and governmental control over the police. The code of silence protects the police officers from external inspections and the public eye. Over the past two decades this ethic spread among major segments of law enforcement agencies and became a well established and relatively independent normative regulator of their behaviour.

Fifth, police involvement in shadow economy was stimulated by the system of evaluation and reporting within the Ministry of Internal Affairs (Paneyakh, 2011). We have a clear example of overregulation here. This excessive regulation and reporting on their performance increase transaction costs to a prohibitive level. ("Every step is paved with pieces of paper"). It also eliminates focal effect ("control") by virtue of opaque practices that provide external, formal correspondence generated by the reporting of all multiple rules simultaneously. The result, which arises at this jun-

tion between systems, is not a compromise between the objectives of regulators but is a compromise between the interests and objectives of the actors.

The reasons that were observed above are mainly derived from the rotten orchard approach. Thus, the business activity of the police officers is not a result of individual mistakes and deviant behaviour of some unscrupulous individuals. It is embedded in economic and institutional arrangements.

### **Socioeconomic and political consequences of large-scale police shadow activity**

All relevant research that was carried out in Russia in the 2000s indicates that there is institutionalization of police shadow activity. The economic activity of police officers is no longer just treated as a kind of "deviation." It has actually become a norm (Kolennikova et al., 2002). People are by no means shocked or even surprised when they have to pay to a police officer for the fact that he/she actually started looking, for instance, for a stolen car, or gets engaged in "investigative activities" into a robbery. At the same time, law enforcement officers are very rarely punished for commercial activity. All in all, economic activity within the police is widespread, has become customary and normally avoids sanctions from the state.

This is demonstrated by the emergence of relatively stable groups of police officers engaged in shadow business in cooperation with the other law enforcement agencies (prosecutors, authorities for control over illegal drug trafficking etc.), courts, other governmental bodies, private companies and sometimes organized criminal groups. Criminal cases of the "raiders of consumer goods" and the "chemists' criminal case" may serve as examples of institutionalization of such practices. Both cases were observed during the second half of the 2000s and begot various consequences from developing new business associations.

In the case of "raiders of consumer goods", policemen falsified documents of criminal cases at the preliminary stage of investigation, which showed that firms had stored allegedly smuggled goods in warehouses. For each of these, artefacts from the criminal case were seized from warehouses rented by the owners of the goods. Later the police concocted "expert evaluations" via mediators and the price of the seized goods was cut to nearly 10% of the

market value. Then the investigator issued a decision on the sale of the goods at this minimal price to their "crony" firms. Later they resold the goods at the market value. The most prominent cases were the seizure of 400,000 cell phones owned by several retailers in 2005 with the illegal income of the "raiders" estimated as \$50,000,000 (Rubchenko, 2007) and the seizure of more than 160,000 Motorola cell phones owned by chain store company 'Evroset' in 2006. The head of Evroset', Evgeniy Chichvarkin, has since immigrated to the United Kingdom. In these cases the police people operated together with prosecutors, evaluation companies, judges and officials from the Russian Fund of Federal Property as well as "crony" companies. The Ministry of Internal Affairs officially protected their activities, disseminated press-releases and announced these criminal cases via major TV channels.

The "chemists' criminal case" was initiated by Gosnarkontrol (official Federal service for the control of illegal substances and drugs). In 2005 they initiated hundreds of criminal cases against producers of diethyl oxide, sulphuric acid, hydrochloric acid and other solvents. Numerous business people were arrested and charged as producers of dangerous chemicals using in the production and synthesis of narcotics (meanwhile, the majority of drugs dealt in Russia is imported and in all these cases there was no evidence that solvents were used to produce drugs; the charges were only related to their trading). In most cases people affiliated with Gosnarkontrol presented these previously charged businessmen with the opportunity to sell the chemicals in question to their "crony" companies and/or to pay bribes to ensure their release from prison or to have their charges dropped. The Moscow branch transferred 248 criminal cases against 303 people to court between 2004 and 2007 (Fedorin, 2008). The number of cases opened was much greater and explanation of this difference is ongoing. Gosnarkontrol executed this in cooperation with police, courts and the Ministry of Healthcare and Social Development.

In both cases, police bodies found and exploited loopholes in the law to develop or suppress activities or to make money. In the case of "raiders of consumer goods", there was a special government instruction which allowed police to sell out material evidence without a court decision or confirmation by the owner. In the second case there was a lobbying by Gosnarkontrol for the inclusion of many solvents in a list of precursors used in the production of narcotics. The compounds in question have since been removed from this list, although the general socioeconom-

ic and political conditions for police involvement in such shadow activity are still in place.

The economic activity of police officers has its own specificities, in contrast to the activities of conventional economic actors. Firstly, it is carried out in addition to the core duties of law enforcement. Formally, the state as their employer hires them to maintain law and order. However, during the routine execution of their duties they begin to exploit their status for earning money in the market. This activity is seen as a kind of "extension" of their formal role, a private continuation of the performance of basic duties to meet the demand for private security, transport, violent services (the intimidation of competitors) and other services. Of course, in the eyes of the law, this activity is illegal and prohibited.

As market players, policemen have competitive advantages over all others. These advantages are twofold. First and foremost, as government employees, they have additional features, ranging from police uniform to the access to personal and commercial information. What is important here is not that businessmen in uniform are *ceteris paribus* more and that their revenue from their business activity is higher than that of other market participants. The problem is that such an inequality distorts market relations in general and creates a precedent where someone earns more than others not because they produce goods or services that are cheaper or of better quality but because they belong to a particular government agency which should provide free services to the entire population. This is a very bad sign for all market actors, especially for potential businessmen, who only think about starting a new business. They see that to succeed in business you must have not only entrepreneurial talent and available resources, but be affiliated with a certain state agency. This has a most depressing effect on the development of the Russian economy as a whole (Kosals, 2005).

In addition, police officers as market participants have a unique asset that others do not possess, namely, the violent resource. In the emerging Russian market, where standards of doing business have just formed, this resource has a particular value. In principle, the use of force is a state monopoly. However, in practice, this resource has been privatized and serves to the private interests. The privatization of this power resource has seriously affected the formation of the Russian market system. Demopolization of rights of using violence leads to the spread of the use of force and deterioration of corporate



ethics. The public police are increasingly turning to private protection agencies and even criminal groups (Gudkov, Dubin, 2006). This is far from the standards of a modern civilized market within which disputes and conflicts are resolved in courts.

As Vadim Volkov (2005) argued, the privatization of major state functions still remains an unresolved problem since the 1990s. The weakness of the Russian state does not originate from the lack of personnel, facilities or organizational or financial resources. It comes from the considerable autonomy of law enforcement agencies complying with the private commercial interests rather than with the formal rules and goals determined by public interest. Accordingly, this "privatization" of the state has very contradictory consequences. If the civil service becomes a business, the strengthening of the state power only enhances entrepreneurial opportunities for civil servants.

In addition, there is a high level of inequality within the police community (Kosals, 2005). First, some police officers work in the labour market as security guards, drivers, and the like. This category includes the majority of police officers seeking to survive on a low wage. The other category of police officers includes the "businessmen in uniform" who use their status and connection to develop businesses of their own.

Thus, police officers present a peculiar type of the market actor combining public function of law enforcement and private economic activities. Such involvement of the police in economic activity has a negative effect on performance of their official duties. This conclusion came from the responses of policemen to the question of whether off-duty work impacts on the main professional activities of police officers. Only 8% of the interviewed police officers reported that off-duty work has a positive effect on their primary official duties, while 56% of them pointed to a negative effect (36% of respondents believe that it has no effect at all).

The involvement of police in the market activity also has important political implications for it creates additional risks of the state capture by divergent private interest groups. There is also a tremendous amount of negative consequences for the institutional and economic development, including: i) insecurity of property rights, ii) destruction of long-term economic motivation for investment and innovation, and iii) deterioration of entrepreneurial spirit and business ethic.

## Conclusions

The shadow activity of the Russian police constitutes a special illegal market with some legal components. Meanwhile this is not a fully "predatory" behaviour striving to its own enrichment only (Gerber, Mendelson, 2008). There is an obvious orientation towards providing services to the authorities and to businesses but ignoring demands for the security of the common people (so called "police of a divided society").

In fact, there is some sort of social contract between the police, authorities and businesses (Kosals, 2005). On one hand, the government saves money on the police's funding and uses police for resolving disputable issues related to privatization and political elections. Moreover, the various clans within the economic and political elite enjoy the possibility of actual privatization of law enforcement agencies.

On the other hand, the public authorities turn a blind eye to the active police market activities. The police can put much of their efforts to make money. Of course, such a consensus is not a result of deliberate arrangements between the police and authorities or a malicious strategic plan. It has emerged as an important by-product of Russian transformation to a market system (Solomon, 2005).

It would be productive to categorise the police involvement in shadow economy by synthesizing three complementary approaches including economic sociology of illegal markets (Beckert, Wehinger, 2011; Gambetta, 2009), social contract theory (D'Agostino, Gaus, Thrasher, 2011; Freeman, 2007), and the embeddedness view (Granovetter, 1985). This can help to reveal why this phenomenon is so sustainable in spite of all the social, economic and political costs.

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## Endnotes

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