

**IMPLEMENTATION OF THE HELSINKI ACCORDS**

# **CRIME AND CORRUPTION IN RUSSIA**



**June 1994**

**Briefing of the  
Commission on Security and Cooperation in Europe  
Washington, DC**

**Commission on Security and Cooperation in Europe  
234 Ford House Office Building  
Washington, DC 20515  
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# **Briefing on Crime and Corruption in Russia**

**Friday, June 10, 1994**

## **Commission on Security and Cooperation in Europe**

**Washington, DC**

The Commission met in room 2359, Rayburn House Office Building, at 10:34 a.m., Sam Wise, Staff Director, presiding.

Also present: Dr. Louise Shelley, Department of Justice, Law and Society of American University, Stephen Handelman, Associate Fellow at the Harriman Center of Columbia University and international affairs writer for The Toronto Star

Mr. Wise. I think we can begin now. There might be others who will come, but it's time to begin—get started, and I would welcome you all here, first, to another briefing of the Helsinki Commission.

Our Commission is part of the process of the CSCE—the Conference on Security and Cooperation in Europe. We are, from the United States side, the more or less congressional component of that effort, and our Commission is headed by two chairmen—Senator DeConcini of Arizona and Representative Hoyer of Maryland.

And our meeting today will be a briefing, which will be chaired by myself. I'm Sam Wise, the Staff Director of the Commission, and it will be on the subject of crime in Russia.

I think all of us here have noticed a marked increase in the attention paid to the subject of crime in Russia. Certainly, internally in Russia I think it has become the dominant subject, and for the outside world it is becoming increasingly important as we realize the international implications of what is happening inside Russia.

Perhaps even more important is the effect of crime on the viability of Russia as a country. President Yeltsin has called crime the gravest threat to the Russian state. And in an article some of you may have seen in The New York Times today, yet another article on crime in Russia, he is quoted as describing his country as a "superpower" of crime.

In other words, to the President I'd say, and others, "Will criminals take over the Russian government? Is that a possibility? Or will Russian citizens become so frustrated over crime and corruption throughout their society that they will vote into office authoritarian leaders who will turn back the clock to a safer but more repressive era?" All sorts of possibilities come up.

Today we have two panelists who are uniquely qualified to address this issue. After they have spoken, we will invite questions from the floor.

Our first speaker is Dr. Louise Shelley of American University, who is a specialist in Russian law and organized crime, serving as a rule of law advisor to the Agency for International Development on issues of crime and corruption in Russia and the newly-independent states.

Her book, *Policing Soviet Society*, will be published later this year. Dr. Shelley has testified in the past at congressional hearings for the Commission, and it is a pleasure to welcome her back.

Dr. Shelley?

Ms. Shelley. Thank you.

It's a pleasure to be here and discuss this very important issue with you, that's important not only for the development of Russia and the former states or republics of the Soviet Union now newly-independent countries, as well as for the United States, Europe, and other parts of the world, because the development of post-Soviet organized crime is not just a national or an internal phenomenon; it is a phenomenon that affects all parts of the world.

Organized crime has penetrated most of the newly-independent states of the former Soviet Union at all governmental levels. With such pervasiveness and with such infiltration into the society, it ceases to be a crime problem but a political phenomenon that could affect the future course of development of the Soviet successor states.

As Mr. Wise says, there is concern that it could prompt a political backlash from the right that wants more political order. It could also cause lasting and permanent discreditation of a market economy and a move towards a capitalist system.

Not only that concern, it may limit human rights, foreign investment, and open market economies. Its influence at this moment is particularly strong at the municipal and the regional level, but there are also ties to the National level as well.

Domination by the Communist party may be replaced by the controls of organized crime. Organized crime will limit and is already limiting aspects of civil society by intimidating journalists. It is reducing free elections, freedom of the press, and media.

Labor markets, once controlled by state planning and submissive trade unions, will instead be subject to the intimidation of organized crime which is already a major employer. As I will discuss more, organized crime now is estimated to control up to half of the privatized capital in Russia.

State ownership of the economy will be exchanged for control of the economy by organized crime groups and former party elites, which have a monopoly on existing capital. There is, as one knows, a symbiotic relationship that exists between the political elite and the members of these violent organized crime groups.

Therefore, our primary concern is that the collapse of communism may not lead to democratization and the transition to a competitive capitalism economy. Instead, it may lead to an alternative form of development, political clientalism, and controlled markets.

One of the most important things to remember is that the transition in the former Soviet Union is proceeding on both political lines and economic lines simultaneously. With the emergence of this organized crime, which is so visible and has such an impact on its citizens' daily lives, it is affecting their evaluation of democracy. It has affected their evaluation of a free market economy.

A symbiotic relationship exists between organized crime and national, local, and municipal governments. As the Italian and American experience has shown, once orga-

nized crime becomes intertwined with government the relationship cannot easily or rapidly be reversed.

But as the experiences of the United States and Italy have shown, constructive efforts through legislatures, through investigative journalism, through legal actions, through various kinds of economic measures that hit at the cause of organized crime, can be helpful in reducing the level of organized crime and its penetration into the government.

And I think that one of the things that the United States government should be thinking about now is that this effort can be introduced at this moment in Russia. There is now, in the last few months, serious planning by the Russians on the measures that they would like to introduce to curtail organized crime. There are efforts to and desire to cooperate with western governments, and I think it is very important for us to develop a complete and structured plan to be doing this.

We are looking at very serious problems in the political arena. Organized crime has undermined the electoral process, the emergence of a viable multi-party system, and the establishment of laws needed to move towards a legally regulated market economy. Organized crime has financed the election of candidates, and there are new members of Parliament with close links to organized crime.

The influence of corrupt officials and legislators has slowed the adoption of legislation outlawing corruption in the bureaucracy. It is not exclusively the fault of organized crime, but it has helped contribute to the confusion and the inability of the legislature to pass needed laws, including banking laws, regulation of securities markets, laws against money laundering, or a witness protection program.

Many of these legal measures have been adopted recently in eastern Europe. Hungary has taken the lead, and they are beginning to have a positive impact in these societies. Therefore, there is a concern among eastern European countries that Russia and the former Soviet states begin to take these measures, because if they don't it will undermine the developments and transformation process that is going on in eastern Europe at the moment.

Organized crime has supplanted many of the functions of a state. A coalition of organized crime and former party elites provides the ruling elites of many regions of Russia and the CIS states. Organized crime provides many of the services that citizens expect from the state—protection of commercial businesses, employment for citizens, mediation in disputes. Private security, often run by organized crime, is replacing state law enforcement.

Let me give you one anecdote that illustrates this. A businessman in Odessa, which is now in The Ukraine, had a deal with somebody in Novosibirsk. The man in Novosibirsk did not pay. There was no legal mechanisms for him to secure the repayment of his debt, which was about \$100,000.

So he called in his local godfather, to whom he paid protection money. That local godfather found the godfather of the businessman in Novosibirsk, a deal was worked out, and in six months repayment was paid. This would not be necessary if there were legal mechanisms working between the states and the judicial system legal mechanisms were functioning. But organized crime is replacing the functions of the state in the wake of the collapse of the Soviet Union.

Organized crime is facilitating the rise of regional powers in Russia. This is not the decentralization and federalism sought by American promoters of democracy. Instead, it

represents the rise of local fiefdoms, protected by armed bands, loyal to local leaders who seeks political and economic controls over their regions.

These local leaders may enjoy more power than in the Soviet period because they own rather than control property, and this time the law enforcers who are private bands work for them instead of the state.

With their control over the economy, over the privatization process, citizens may face serious troubles in the post-Soviet period in protecting their property rights and defending their labor rights because the new leaders are owners of businesses who are no more interested in the labor rights of the citizens than were their communist counterparts.

And I should add that for us as Americans we understand the importance of property rights. After all, Locke pointed out—and our society is based on the Lockean philosophy—that property rights are one of the basic defenses that citizens have against the state. If citizens do not have the right to acquire property, as I will be discussing a little bit more later, then they are jeopardizing their independence from the state.

International trade and investment is another area in which organized crime is affecting post-Soviet development. It is undermining foreign investment and trade by increasing the risks of capital investment. It is undermining American interest by making American investments and personnel less secure.

Furthermore, there are American businesses—some of them major—which have chosen not to enter the former Soviet Union because of the risks to their business. Capital is not being protected because of the absence of clear and permanent legal norms, reliable and honest parties with whom businesses can negotiate, trustworthy law enforcement, courts which are impartial arbiters of economic disputes, and the absence of insurance and banking laws. Therefore, there are other places that are just more much desirable for American businesses to invest.

The alliance of corrupt officials in organized crime prevents the emergence of long-term trade agreements because they are not in their financial interest. New Mafiosi preferred to sell state resources for their own rather than open trade with multi-national companies.

For example, an official who is in charge of valuable timber resources may choose just to log the timber, sell the timber, pocket the money, export the profits abroad, and not develop a relationship with a Weyerhaeuser or another international company because that will establish limits on how much timber they can cut.

It will establish a long-term relationship, which is not in this person's interest because most of these organized crime figures and corrupt officials are looking for short-term profits and not long-term gain. Therefore, the situation makes it very difficult for foreign businesses to invest.

What will happen is that organized crime will encourage trade in illicit, rather than legitimate, markets. It doesn't mean that the economy isn't going to grow; it is just going to grow more in the illicit sector.

At present, this illicit trade exists in goods which can be illegally exported for quick profit, such as diverted oil. A large share of the oil exports of the former Soviet Union are now being illegally exported, there is also illicit trade in metals, timber, and military equipment. And this export of military equipment is alarming because it is helping to supply armed conflicts within the former Soviet Union and worldwide.

Other illicit trade occurs in areas that are universally recognized as criminal, including nuclear materials, drugs, prostitution, and smuggling of people. These are not just former Soviet citizens that are being smuggled but people from all parts of the Third World. These commodities now dominate the CIS nations' participation in international markets.

The dependence of post-Soviet economies on illicit commerce is one of the major economic risks to their future development. It is impeding the development of commercial infrastructure for sustainable international trade. As we know, economies that are too dependent on a limited range of goods have trouble when there is a sudden decline in production or in demand.

While the post-Soviet economy is diversified in many types of illicit goods and services, the problem is that many of these are not renewable, and it is providing a problem in developing long-term international trade. Furthermore, much of the profit from this international trade is residing in foreign banks and is not being invested in the economies of the successor states.

Foreign businesses interested in international trade in oil and raw materials cannot avoid the profound corruption. International businesses often have to bribe officials to obtain the licenses that they need to export oil and valuable minerals. Therefore, United States' firms are frequently forced to violate U.S. legal norms if they seek to enter the Russian market. There is one estimate that 80 percent of all American businesses have had to violate the Foreign Corrupt Practices Act at least once.

To move on to the discussion of the nuclear security area. There were hearings within the last two weeks on the Hill on the problem of the risks of the smuggling of radioactive materials.

At least at this moment there has not been export of major nuclear weapons, though there is increasing trade in radioactive materials, which is dangerous both for the possible uses of this radioactive material, as well as the environmental risks of transporting radioactive materials without appropriate protections.

Recently, a well-known Russian investigative reporter published an article in The Bulletin of the Atomic Scientist suggesting that some of the risk that has been attributed to organized crime's infiltration into the nuclear arsenal is exaggerated, but I think we need to make sure that vigilance is maintained in this area.

Looking at tourism and foreign presence in the former Soviet Union, there is a serious problem of crime, especially in areas where tourists frequent, which are hotels, restaurants, casinos, which are owned by organized crime.

There are certain hotels which are just sites where organized crime figures gather. But even some western management hotels have been infiltrated by organized crime, and there have been 180 American victims in Russia last year, the crimes against them are mostly property crimes but there also have been cases of violence and cases of homicide.

Let me point to the area which I think is most alarming from a question of the transformation of the former Soviet Union, and that is the impact of organized crime on daily life.

From our international concerns, the nuclear threat is certainly very important. But the possibility that Russia will revert back to some kind of authoritarian government depends very much on the way citizens appraise the transition that is currently underway



in their society. And the impact of organized crime on their daily lives is very severe, and it is a very shocking transition.

Remember that only a decade ago it was safe to walk the streets in most Soviet cities. In fact, one of the benefits that Soviet citizens felt that they had from the Soviet system was a great sense of security, and Gorbachev, when he promised them perestroika, promised them democratization with order. What they've had now is democratization with disorder.

And it is this impact of organized crime that is so alarming to the Soviet citizens because there is almost no aspect of their lives that is untouched by organized crime. It is penetrating not only the problems of their personal security, but it is affecting the press, the formation of civil society, and as I mentioned earlier their ability to obtain property and, hence, their future financial security.

The violence and insecurity in emerging markets is a threat to their lives and financial security. The privatization process has resulted in a variety of criminal acts against citizens. Individuals with choice apartments have been threatened or even killed to acquire their apartments.

Individuals who have right to acquire shares as employees of present businesses or retirees of existing businesses have been visited by the thugs of organized crime and been forced to surrender their property rights. Citizens who have used or acquired vouchers, which are their way of acquiring property that's being sold off by the former Soviet state, have been intimidated at auctions. Or if they've given their funds over to voucher funds, these unregulated funds have in some cases just totally disappeared with all of the resources of the citizens.

So many Soviet citizens, observing this privatization process, it is the great grab of organized crime and the party elite that is leaving them totally in the cold without any property or any chances of obtaining it.

At this moment, the discrepancy between the top 10 percent of the Soviet-Russian population and the bottom 10 percent is 12-fold, and as this privatization process proceeds this discrepancy is going to grow larger and larger. Organized crime results in increased violence, street crime, property crime, and more visible deviance.

Not only do we hear about the explosion of car bombs in the street, but there are increasing numbers of burglaries, and the vast majority of the population has said that they are changing their lifestyles in response to the crime threat. We know what that means in this society, but it is particularly alarming to former Soviet citizens who once had such security in their lives.

Organized crime has contributed to significant increases in drug trafficking and drug use, prostitution, and gambling, and prostitution has spread both abroad and within Russia. Gambling casinos are sponsored by organized crime groups in hotels, and so forth.

Another major problem is the inflation and high cost of goods that is leading to an increased number of citizens living below the poverty level. The monopoly on goods and services is increasing prices for Soviet-Russian citizens by 20 to 30 percent. So this is an extremely important factor in their lives and the fact that they are not able to buy the food that they need or the clothing that they need for their family members.

Furthermore, industry is increasingly controlled by organized crime, and individuals are not going to be able to establish free trade unions. As we have watched what has happened in this country as organized crime has entered into trade unions, this is something

that we must watch with vigilance in the former Soviet Union, because labor rights once violated by the communist party will now be violated by members of organized crime.

The emergence of organized crime as a political and social force is also affecting the creation of a civil society. We have read about the intimidation of journalists, but there are other ways that this is happening as well. Organized crime is helping to fill this vacuum in society. It is an impediment to the development of civil society, and it has been infiltrating the hundreds of charitable organizations that are existing in Russia.

The last problem that I think is also very important to consider is the way in which organized crime helps exacerbate interethnic tensions. The active participation of different ethnic groups in organized crime is leading to increased ethnic conflict and hostility.

We must remember that after the storming of the Parliament in October, non-Russians were expelled from Moscow because of their alleged involvement in organized crime. And this problem of interethnic conflict is not just one in Russia; it exists because of the diverse ethnic groups' participation in organized crime in all parts of the former Soviet Union.

What are the policy implications for the United States government? First, the United States government should carefully scrutinize our ongoing and soon-to-be-launched massive privatization program to ensure that attention is paid to the serious threats to this process from corruption and organized crime. Grant guidelines for this last round of proposals currently ignore this problem, or these problems.

The United States should pay very careful attention to the aid-sponsored privatization program and those of other international organizations in which we participate. A recent article in *The Atlantic* pointed out that U.S. government officials are aware of this problem.

If we are contributing to the infiltration of organized crime into the privatization process, we are contributing to the exacerbation of a problem that is going to affect future generations of post-Soviet citizens who are being deprived of their property rights and their chance for financial security and a prosperous future in a market economy.

Therefore, it is imperative that our aid effort not only promote a positive distribution of resources, but we must be very careful that we do not worsen the process.

Second, all law enforcement assistance should be targeted. A massive aid program would only serve to aggravate the problems of corruption and benefit the law enforcers sponsored by organized crime. Remember, there is a very high rate of turnover in the police at this moment. Individuals spend a few years there and then join the private security forces run by organized crime.

We, therefore, should focus our law enforcement assistance in ways that focus on U.S. interests. This can be done through enhanced cooperation, as well as the development of legislation. There is currently a legislative agenda that the Russians are developing on extradition, money laundering, witness protection programs.

All of these should be encouraged, and we should be helping them to develop legislation that is in conformity with Vienna Convention and other agreements, so that the Russian legislation can be used in a cooperative way with our counterparts, or with their counterparts in the United States.

Third, emphasis must be placed on establishing a legal infrastructure, not only by providing technical assistance through the Aid Rule of Law Program but by emphasizing the importance of this in discussions with high-level governmental personnel and legisla-

tors. This should be done not only in talks by Americans but also through our participation in international organizations and the CSCE process.

Fourth, we should educate American businesses on the problems of crime and corruption. Many of them are not aware of the dangers and problems that face them in investing in Russia and the former Soviet states. We should penalize American businesses who are violating the Foreign Corrupt Practices Act.

Fifth, we should broaden the concept of human rights violations to include acts committed by organized crime groups and corrupt officials. This can include violations of labor rights, freedom of the press, and the fomentation of ethnic conflict.

For so many years we have thought of this in terms of violations by the government and focused on human rights violations in those areas. Now we need to broaden our thinking and think in other terms as well.

And lastly, the United States should pay close attention to the impact of post-Soviet organized crime on American business interests, on security, on the crime problem within the United States, and the financial integrity of our aid process.

We must remember that this post-Soviet organized crime has developed very rapidly and is developing in an international arena. Therefore, as Russians will admit to us, it is not just our problem; it is your problem. And by being your problem, as they were saying, you have to focus on the consequences, and you have to cooperate.

Many Russians feel let down out by our failure to pay attention to this issue earlier. Many people that I know in Russia are welcoming the United States government's new interest in this area and our willingness to help them. And I think there are many fruitful areas of cooperation that are just beginning and should be continued in the next few years, in order that Russia and the other successor states can make a transition to more democratic societies with market economies.

Thank you.

Mr. Wise. Thank you, Dr. Shelley.

Our other panelist this morning is Stephen Handelman, who is presently an Associate Fellow at the Harriman Center of Columbia University. He was the Moscow Bureau Chief of The Toronto Star from 1987 until 1992. His articles on crime in Russia have appeared in Foreign Affairs, The New York Times Magazine, and other publications.

Mr. Handelman's book, Comrade Criminal: The Theft of the Second Russian Revolution, will be published this fall.

Mr. Handelman?

Mr. Handelman. Thank you.

It's a little unusual as a journalist for me to be on this side of the table.

[Laughter.]

But I appreciate the opportunity to talk about an issue that, as Dr. Shelley said, is probably the most important single issue in the—to consider when we're talking about the transition of the Soviet Union and the successor states into the post-communist era, or whatever we want to call it.

And I don't really want to repeat a lot of the—a lot of the points that Dr. Shelley made so ably. But I'd like to begin with a story about a man named Aleksei Kochetov. He is the manager of probably Moscow's largest brewery which is located in the northern neighborhood of the capital.

He is in his late 40's, he has two children, and he managed this brewery for about 10 years, but until the beginning of 1992 he was a state employee, a bureaucrat, since all of the breweries were owned by the state at that point. And with the first rush of privatization he was allowed to sell his beer to private distributors. So he jumped at the chance to become what he said was a capitalist.

Within a few months he was doing a pretty good business. Trucks would come in every morning from retail outlets around the capital; he had hopes of returning—of turning his company into a completely private operation. But he began to notice something strange in the mornings when the beer trucks would leave the gates of his company. There were groups of men congregating around the gates, talking to the drivers, whispering to them.

He sent somebody downstairs to inquire what was going on, and he found out they were members of a local gang who were demanding payment from the drivers for each load of beer that they were shipping out or, alternatively, a cut of the actual beer that they were bringing out.

Now, Kochetov was still an innocent then in the world of new Russia. He knew the local police captain so he complained, and a few days after his complaint, while Kochetov was on a business trip and his wife and children were at home, an explosion ripped apart the door of his apartment. No one was injured. Kochetov got the message.

He didn't call back the local police. It took him a few weeks to summon up the courage to find help in Moscow's new and relatively small, organized crime squad. And a friendly detective told him what he had already guessed, that he was foolish to have gone to the local police because they were already in the pay of the local racketeers.

The detective offered to provide some of his men as bodyguards and station them at the gate of his brewery, which he did, and it worked—for the first couple of weeks the gangsters stayed away. But the detective had to tell Mr. Kochetov that he couldn't guarantee that these men would stay at his brewery forever. After all, they didn't have a very big budget, Moscow was a very big city, and there were a lot more of these things going on.

This, obviously, helped Kochetov decide to change some of his plans about expanding the operation of his brewery. He told me when I saw him that he was waiting for the atmosphere to change. But I could tell that he doubted that it would. He had a different attitude towards capitalism, and obviously he wasn't alone, because there are thousands of would-be Russian businessmen, would-be Russian capitalists, who have gone through very many similar experiences.

I think Kochetov's story is significant because his fear of success, his failure to go further on the road to capitalism, is really our failure as well. If Russia's transition to democracy and free enterprise is cut short or reversed, we are going to feel the impact, again, as Dr. Shelley has said.

That's really, in my opinion, the real issue behind the crime problem, the crime story in Russia. There is obviously plenty of sensational aspects to it—car bombs in the streets of Moscow, mafya lords being gunned down in Chicago-style shootouts, a 43 percent increase in the murder rate in the last—first 5 months of this year in Moscow alone, stories of nuclear smuggling, increasing drug trade. Crime was the first post-Soviet growth industry.

But the central question about crime, really, is its affect on Russian attitudes towards the revolutionary transformations in their own country. It is going to determine their future stability, and by implication our own. The irony is that until recently we have given the issue of post-Soviet crime so little attention.

The transition out of communism is probably the most dramatic and crucial story of our time, but it is hidden in the cloud of rhetoric that accompanied the fall of the Soviet Union, and the euphoria about our victory in the Cold War, and our relief of being able to concentrate on our own backyard.

We made three assumptions, all of which allowed us to close our eyes to Russian reality. We believe that the communist establishment was gone or at least too weak to have any impact. We believed Russians were eager to grasp democracy, and we believed the free market will be the engine of development in a new Russia.

Crime, and particularly organized crime, have confounded all of these assumptions. But it is really not the corpses in the streets that should worry us. It is the impact of disorder and illegality, as Dr. Shelley said, on the individual Russian as well as the individual Ukrainian, the individual Belarussian, because the problem is not just a Russian problem; it is extended to all of the former republics of the Soviet Union.

And another point, a very key point to remember, is that crime didn't begin with the fall of the communist regime. In fact, crime was a—rising crime was a problem throughout the final decade of the Soviet Union's existence. It was something that Gorbachev made a point of talking about. Many police have told me that they feel perestroika was the reason for the development of organized crime in Russia.

But the key question still to ask—and I'll come back to that point because there's a lot of truth in that—is that people ask is—whether crime in Russia is a cause of the current chaos that we see in the streets of Moscow and St. Petersburg and other parts of the country, or an effect. Because if it were merely an effect we might be able to breathe easier.

After all, most societies including our own, have experienced violent disorder during periods of rapid economic and political change. The crime, bribery, and financial wheeling and dealing of today's Russia look very similar to the American frontier and the period that ended with the robber barons and the rise of the big city corrupt political machines.

Some Russians use that very same analogy to shrug off what is happening in their society. They say that all of this will eventually blow over, and perhaps some of their own robber barons will turn into decent citizens honored for their charities and their civic pride.

The funny thing is that some of the mobsters I've talked to in Russia made the same argument. They say, "We have no choice" except to act the way they do. "We live in a lawless society. But our children," they say, "are going to be honest." The question is, will they?

The problem is that in post-communist Russia crime is not just a by-product of free-wheeling frontier capitalism. It is its direct rival. Organized crime in particular has choked off natural economic development of Russia, of whatever type, whether it's a capitalist type, quasi-socialist type, whatever we want to call it. It has corrupted politics, and just as importantly it has transformed public opinion about the new society.

This is what a man who was at that point the director, the head of the Supreme Soviet Parliamentary Committee on Law and Order said to me in the summer of 1992—

his name was Aslambek Aslakhanov—he said, “Some of our people seem to understand democracy as being able to do whatever they want. As a result, we have wild democracy, an epidemic of seizing everything in sight, of getting rich at any cost.”

There’s a lot of things that in that statement. There’s bitterness, there’s a misunderstanding about the difference between making money and making illegal profits, and there is also an element of truth and fear about what he called “wild democracy” because the greed that he is talking about, and it’s a point repeated by policemen and officials throughout Russia today, has really infected the entire political body of Russia.

In 1993, more than 1,500 Russia government officials were charged with serious corruption. Another 4,500 cases of bribery were brought to trial. Few believe that these figures covered the extent of criminal behavior and the abuse of public office inside Russian government institutions.

Now, this might be understandable if it just involved officials of the old regime. But the greed, the mania for quick profits, have hit many of the reformers as well. These are the people who are our heroes of the second Russian revolution.

In fact, they even got a back-handed compliment from the old communist officials themselves. Former Prime Minister Nikolai Ryzhkov said his colleagues had been nursery school kids compared to the current crop of bureaucrats.

Well, this is true probably, but Ryzhkov passed over one essential point, which is that the disrespect, the disregard for authority, for law, that we see in Russia today is a direct result and a direct part of the legacy of the communist state and a system that existed in Russia until 1991, and perhaps even before.

One St. Petersburg police inspector summed up the prevailing attitude in terms that could have come from the pages of Gogol or Dostoevsky. “The law,” he said, “punishes only those who lack imagination.” And this particularly has hit those people in Russian society who are supposed to enforce the law, meaning the police.

Police have always been, particularly the militia, people in the Ministry of Internal Affairs, local cops, have always been pretty much liked by Russians, especially when they’ve compared them with the KGB. And if you speed in Moscow or St. Petersburg, you know that if you pay a certain amount of money you’ll get off with nothing more than a reprimand. Corruption has always been part of the police ethic.

But now corruption is increasingly widespread. Detectives, for instance, of the Moscow Criminal Investigation Division arrested a group of businessmen on trumped-up charges, brought them down to the stationhouse and demanded a payoff of six million rubles. When the businessmen refused, they beat them up. This is not an atypical case, unfortunately.

Some leading police officials act as directors or consultants for commercial enterprises, which are regarded as fronts for mob-owned enterprises. Others secretly work for the gangs as mobsters, as enforcers or consultants. One police captain, Vladivostok, even became head of his own gang.

Even those policemen who stay straight have a great deal of problems in trying to fight crime. The breakdown of the old police structure across the Soviet Union has created a legal and administrative incoherence across Russia and the former Soviet Union today.

In some cities police are forced, detectives are forced to chase their suspects by taxi or on the bus. Police are short of as much as 70 percent of the flak jackets and handcuffs

they require. They have less than 40 percent of the computer, audio, and video equipment they consider they need to fight crime.

They're using outdated weapons against criminals who have cellular phones. Weapons imported from the west, or stolen from Red Army garrisons. "Most of the time," one Moscow police captain said to me, "our only weapons are our heads. We have to deceive the criminals into thinking we're better than we are."

Now, obviously, what would help them as well would be a system of law that they could enforce equitably and fairly—and that's another part of the problem in Russia today. The criminal code that most policemen and prosecutors operate by is still the old Soviet criminal code.

It's now under consideration for change in the Russian Parliament, but at the moment there are no provisions even for the definition of racketeering or organized crime, which officially in the Soviet Union never existed, and there are certainly no provisions for the newer economic crimes that we see in Russia today, such as money laundering, white collar racketeering, and that sort of thing.

But the worrying thing is the attitudes that many policemen still have. Most of them, obviously, grew up in the Soviet system. They still mistrust small businessmen, the idea that you can actually go out and make a profit and earn more than your neighbor, and they have an inordinate respect for these new capitalist bureaucrats who have given up their party cards but they haven't given up their role as power-brokers in Russian society.

So what you see among policemen is a longing, a nostalgia, of the old Soviet way of imposing order. This is all that people know, this has worked in the past, and they look at money and the earning of it as somehow corrupted. They look at the streets of Moscow and they see Mercedes crowding out the Ghigulis and the Ladas off the roads.

This particularly creates pressure on an ordinary businessman, a businessman who wants to go straight, that is almost impossible to—to understand from the outside. Like Kochetov, no businessman can survive in Russia today without paying some sort of protection money.

A report that was delivered to President Yeltsin at the beginning of this year pointed out that something like 70 percent of the businesses across Russia are connected in some way with organized crime. They either pay protection money, or they are partially owned by some of the gangs. The payoffs account for something like one-fifth of the monthly inflation rate in Russia, according to this report.

But the question that arises when we talk about the mafiya is, "Who are they?" Is the Russian mafiya something like the Italians? The American mafia that we've seen in movies, television, and books? Or is it something completely different?

My belief, from having interviewed many of the gangsters and talking to the police in Russia, is that it exists in a different dimension from what we understand to mean as organized crime, and one of the reasons for that is that the roots, as I was saying a bit earlier, of organized crime and criminality in Russia extend far back beyond 1991. In fact, they extend far back to before the Russian revolution itself.

There was a criminal society existing in Russia for several hundred years, with its own special code, its own approach to doing things, and its own particular relationship to authority. After the revolution many of these groups began to call themselves under a name that has since become widely known today as representative of what the mafiya

is. It's called "The Vorovskoi Mir." It can be translated as Thieves' Society or Thieves' World.

And in this Thieves' World there are several major groups or clans organized in various hierarchical forms with underlords, lieutenants, capos you might call them, middlemen, and of course at the top is what we would consider a godfather, who is called in Russia a "vor," a thief.

Now, this classic, traditional criminal society existed throughout the communist era. They were officially opposed to communism—you couldn't become a leader of any of these societies if you had anything to do with a communist party—if you even joined the Young Pioneers as a child.

But during the thaw and the liberalization of Soviet society many of these criminals, began to see opportunities that arose in the new black market that was developing in Russia. And this black market became the source of an incredible flows of wealth.

By the time of the fall of the communist regime, the major sources of capital and wealth inside Russia were this black market money and money owned or manipulated or administered by the communist party.

When we fast-forward to what has happened today, we see many of the same figures of those organized crime groups operating throughout the country as racketeers, as smugglers, or as simple thieves and hoodlums.

But what we also see is a different kind of criminal who has one foot in the old black market world, the old criminal world, and another foot in the official world, the world of politics and the old structure of the party. And this new type of criminal, this new type of thief, is what people are now regarding as the mafiya.

If you saw them on the street they'd be very respectable, well-dressed gentlemen. You wouldn't tell that they were mafiosi just because they've got black shirts and white ties, as you might tell from a movie in the States.

But these fellows regard themselves as the upholders of a certain traditional view of Russia. Many of them started out in 1991 as supporters of the new Russian democracy. When the barricades went up in the White House in the famous scenes of 1991, many of the people who were delivering coffee and guns, the defenders of the White House, were members of these new mafiya gangs.

Over the succeeding years of chaos in Russian society a lot of these new mafiosi began to think, "This democracy or this westernization is not as good as we thought for our business." And what you began to see then was a new alignment between them and the old officials, the old bureaucrats who still had a lot of money, still had a lot of power and influence in Russian society.

And together they became a political force in Russian politics and in Russian life, and we've seen that, as Dr. Shelley said, support for individual candidates in the December election provided by some of these organized gangs.

There has also been evidence that many of these—some of these gangs have become involved or allied with extremist political groups inside Russia. This is what's called the famous "Coalition of Red-Browns," an odd, bizarre grouping of neo-imperialists, neo-communists, neo-Stalinists, neo-nationalists, ultra-nationalists, all together under one slogan which is, "Let's bring order back to Russian society."

They don't say, "Let's bring communism back," but they say, "Let's bring Russian society back to what it used to be." Some of them would like to see the czar coming back.



Some would like to see a leader like Stalin. The more modern ones would like to see someone like General Pinochet of Chile.

But what they share, generally, is the idea that crime has represented a threat not only to people who live ordinary lives and try to walk the streets in Russia, but a threat to the very fabric of the Russian way of life. That rhetoric, of course, should be very familiar to us.

The backlash in Russia is not really limited to these fringe groups, these fringe elements. It has begun to spread through pretty much every political group around Russia today.

Even the candidates for Russia's Choice, the liberal party led by Gaidar who are, of course, our heroes in—in Russian society today, spent many, many hours talking about crime and law and order on the streets during the last election.

The support for this goes far beyond the support, for instance, for people like Vladimir Zhirinovskiy, who is, of course, as we know the extremist anti-semitic, neo-fascist, who has become the latest scare from Russia.

But we can see this in public opinion polls. There was a survey in August of 1993 that showed 49 percent put rising crime ahead of unemployment as the country's greatest problem.

The responses to other questions in the survey reflected the increasingly popular conviction that the transition to a market economy benefited only criminals. When they were asked which government policies were needed to stabilize the economy 59 percent favored state control over private business, which is and has been since the era of perestroika the code phrase for the black market entrepreneurs, the speculators commonly believed to be stealing the country blind.

What has happened in Russia is that law and order has become one of the principal battlegrounds, perhaps the principal battleground, for Russian politics. As Dr. Shelley has pointed out, after the October uprising in Parliament, no one missed the fact that when the curfew was imposed and troops were put out on the streets crime went down.

This curfew and the war on crime that Yeltsin declared became a way to evict many of the Caucasian traders that were crowding the markets of the capital. These were people who had brought, visibly, the new capitalist society to most people, most ordinary Russians. You can buy pretty much anything from them. Of course, you could buy drugs, but you could also buy foods that you never saw before in Moscow.

These people were believed to be associated with some of the larger Caucasian gangs which have taken root in Moscow and in St. Petersburg. The police took something like 3,000 people under arrest, another 10,000 fled the city, and there were reports from Amnesty International of beatings of anybody with dark skin, or anybody who looked Caucasian.

What was clear was that this was not really a war against crime; it was a war against wild democracy, wild capitalism. The actual mafiya lords, the godfathers of crime, were not touched. Particularly the Russian gangs, the Slavic gangs, who saw it as a way of getting rid of some of their rivals.

We tend to miss such subtleties when we talk of what's really happening in Russia. We see Russia moving very slowly back towards a decision to impose an old Soviet style of imposing order, with all of its attendant complications in terms of civil liberty and

human rights, as a way of rescuing their society from the chaos that they see has emerged from it.

The backlash is something which really should concern us more than anything else. When people say "mafia" they don't just mean the criminals or the hooligans. They mean whole sector of society that's making money, that's trying to start into business, that's trying to become entrepreneurs. Some of them break the law. There's a very thin line, unfortunately, between what is illegal behavior and legal behavior in business in Russia.

One lawyer, a former prosecutor in Moscow, told me that he thinks the biggest criminals in Russia today were not the mafia people but members of the old regime who are still active. He said, "The main way the mafia penetrates into the economy is via the bureaucrats. They are our main enemy. The mafiosi are only the second enemy."

This is something that we need to keep in mind when we talk about how we handle crime in Russia, how we react to it, because in reality there is very little that we can do. We have even less influence on Russian internal affairs than we had on Soviet internal affairs.

But there are certain ways that we can influence what's going on. Dr. Shelley mentioned some of them, and I agree with most of them.

But one key point is that while it was smart to hold off in the early days, in the first two or three years of post-communist life, from massive aid and investment because we didn't know how it was going to be managed, or how it was going to trickle down through Russian society and because, clearly, it was going to be misdirected into criminal or quasi-legal operations inside Russia, while it was smart then to stop and to think about how far we'd go in helping and in getting involved in Russia, it's not smart now.

Our approach, I think, should be to engage ourselves with Russia in a way that we haven't done before and that we really didn't think we'd have to do after we won the Cold War. Of course, we can see that what's really happening in Russia, the real issue in Russia, as well as the other communist states, former communist states, is how people are trying to divide the spoils of the old system

It is a conflict between the new and the old. An attempt to break down the structures of the old society in Russia. This is true not only, of course, in the former Soviet Union. It's true of pretty much all of the countries in the east. We can even see it today in China, which is still nominally a communist state

Our approach, I believe, should be to support those forces particularly in the regions who are genuinely trying to develop in a free enterprise economy. We can, as individual businessmen, investors, officials, stand if not between them and the mafia, at least on their side. We should join this approach as Dr. Shelley said, a coherent program of assisting law enforcement authorities in Russia

American police I've spoken to are reluctant to get involved with police forces in Russia or the KGB, the former KGB. They point out that they are generally corrupt and they don't know who they're dealing with. And, of course, this is true.

But I think we have to put our feet much deeper into the water than we have until now. We must begin the sorts of exchanges and programs that Dr. Shelley was talking about, in order to help Russia engage in the work of breaking apart the old structures of society. The alternative is a criminal state with nuclear weapons. And that's something we thought we just finished living with for the last 50 years.

Thank you.

Mr. Wise. Thank you very much.

Thank you both. I think you've given us an extraordinary picture of the situation in Russia. It's in some ways, to me anyway, so overwhelming you wonder if it's—it borders on hopeless.

I think we all appreciate the steps that you both recommend that could be taken to—to begin to deal with this problem.

But let me ask you both a question, if I may, to begin the question period. Is there, in your opinion, a genuine desire by the leadership in Russia, beginning with President Yeltsin, but including the Duma and the other parts of the constituted authorities, to deal with this problem? Or are they parts of the constituted authorities who have a vested interest in seeing the situation the way it is?

I note for example in the paper today a recent development that President Yeltsin has tabled or put forward a tough anti-crime legislation bill. Zhirinovskiy and others in the Parliament are cited as calling for immediate execution of organized crime figures. So there—there are voices, but how genuine are these? And if they are genuine about the desire to fight crime, are there things that they actually can do internally in Russia to accomplish this?

Dr. Shelley?

Ms. Shelley. As you said, you came away from this with a pessimistic feeling. But I think that the battle is not lost at the National level, and that's very important to understand.

I'll reiterate the point that Mr. Handelman made that now is the time where one can do something. Because there is a realization at the top that this is a problem, that something needs to be done, and I think even among some of the corrupt officials and organized crime figures there is a realization that if they're going to keep their ill-gotten gains there has to be some legal structure that's going to protect them and give them a business environment in which they can function.

I mean, I've heard about this from business figures in Kazakhstan. They're also some, like Mr. Handelman talked about, in Russia.

If under Yeltsin's direct power is Yuri Baturin, the National Security Advisor, who is very concerned about these issues. Some of us may know him. He spent time at the Kennan Institute at the Wilson Center here. He is a fine lawyer.

I think some of the proposals that we're seeing coming out of Yeltsin's presidential body are related to him. He has got a wide group of advisors from different branches of the government who are working on this issue. So at least at the presidential level one can say that there are competent people who are concerned who are working in this area.

And I think some of the specific proposals that are coming out of Yeltsin's office which have been published in Izvestia, some of them which I alluded to, some that Mr. Handelman alluded to, are needed legislation. Leaders are recognizing the problem and developing lists of what needs to be done. The passage of some of that depends on the Duma.

What will be interesting to see is whether Zhirinovskiy supporters and the right-wingers, which comprise at least a quarter of the legislature, are really waiting to take a very hard-line approach on this. And then you have some individuals in the legislature who will compromise, some who are more reform-minded or who want a more rule of law

type of program. So it's hard to say because you don't have an old march-in-line communist legislature in the present Duma.

But there are certainly going to be some people who are going to go along with a very hard-line position like Zhirinovskiy, and there are some that are going to want to go along with Yeltsin's program as a way of not going towards such a repressive measure. So that you're going to see in-fighting and discussion within the legislature that is going to proceed for a while and may make it difficult to implement legislation.

But one of the encouraging signs that I've seen lately is that the legislature for several years there discussed legislation on corrupt officials. Finally, some action has been taken, very recently, passing legislation in this area. And it may not be all that some desired, but it is something that has been done.

So some of the impacts that we've seen in the last few years in the legislative process may be being resolved as the threat and the potential backlash of not taking action are seen by some people.

So there is not a coherent position, but there are honest officials within the MVD. There are honest people within the bureaucracy. There are people who are working at the highest levels with the President that are wanting to pursue an anti-organized crime policy.

And I think one of the things that I've found in talking to Russians at this point is that they feel very let down by us that they're not getting the type of assistance that they want. This includes not only hand-holding but technical legal advice, the kind of explanations of what impact the introduction of this legislation will have, what kind of response they can get from the United States and foreign countries on the extensive money that has been laundered abroad, how they can be able to repatriate these assets once they locate them.

These are the kinds of questions that are disturbing them and with which they want help. We are certainly equipped to do this. It is a mutual process and our people can and should be working with them on this.

Mr. Wise. Do you want to say anything or—

Mr. Handelman. Yeah.

Just—I mean, I'm—I'm a little bit more skeptical. I mean, by my account this is about the fifth war on crime that Yeltsin has lodged in the last three years.

I—I remember about the third one when Yeltsin stood up in a—in a session that was attended by leading law enforcement officials, authorities, and politicians around Russia to talk about the new legislation, how they were going to stop Russia from becoming a mafiya superpower, and everybody applauded

In the audience were people like Alexander Rutskoi, people like Ruslan Khasbulatov, top police officials. Six months later, eight months later, those same people were either being charged with corruption, they were being charged whether rightly or wrongly, or they were being tarnished by associations with extremist groups, or they were involved in the October uprising and ended up in jail briefly.

The problem of trying to do something in—from a government, a Federal Government level against crime is that the infiltration, the penetration of criminal groups and this new sort of mafiosi figure who is half black marketeer and half criminal, half legitimate businessman—that's three halves but you get the point—is operating throughout the halls

and the corridors of Parliament in Moscow today. He is operating in the municipal councils, and he is operating in the central ministries of Russia.

So it is very hard to ask these people to enforce laws against themselves. What—what is missing is really a consensus in Russia about how to deal with crime and how to define it. I mean, it's easy for everybody to say, "Well, crime is terrible because there are—you can't walk down the street at night in Moscow anymore, and we've got to get rid of the hooligans. We've got to get rid of the thieves."

But when you get into the areas, the higher areas and the more difficult areas of economic crime, of money laundering, of high-level corruption, that's a bit more difficult. But that's the central area that the central government hasn't dealt with, and it so far—and this is not necessarily Yeltsin's fault, but it hasn't shown the political will and the sophistication to start dealing with these things.

Mr. Wise. OK.

Now we'll take questions from the floor. There are three microphones spread across the front of the room. I ask those who ask questions to identify themselves first and use one of the microphones.

Over here first? Yes, please? Yes?

Ms. Bainonis. Asta Bainonis from the Lithuanian-American Community, Incorporated.

Both Dr. Shelley and Mr.—Dr. Handelman—

Mr. Handelman. No, no. I'm not a doctor.

Ms. Bainonis. —referred to, in passing, to the U.S. government's belated recognition of the problem. I'd like to bring you back to that and, if you feel comfortable, to comment a little more extensively because what our organization has found for the last year, part of being the State Department Coordinator's Office, a real resistance to getting involved in the organized crime issue.

I know this is a dangerous charge to make, but the U.S. Embassy was failing to report basic information on organized crime back to the State Department here. Even today, the American Bar Association CEELI program has nothing to do with organized crime.

There has been some help from the Federal Bureau of Investigation in training some police officers, but we don't believe we've made any kind of dent in Lithuania without a comprehensive approach, without tough legislation—tough legislation.

There was a case 3 weeks ago—the first organized crime case to be brought in Lithuania—against racketeers being dismissed because the witnesses were intimidated and the courts refused to give any witness protection. Now, the message that that sent throughout Lithuania is, "Public citizens, don't cooperate because your government is not going to help you fight this thing."

And I really believe that if the United States Congress doesn't spend more time pressuring the U.S. government officials and the officials at the State Department Coordinator's Office and the contractors to do something, we're not going to be in a position to help.

Mr. Handelman. OK. I'd just like to—it's interesting that your—you talk about Lithuania and the Baltics because I want to make the point again that the program is

not exclusive to Russia. It's seen everywhere in the former Soviet states. And, in fact, the Baltics are an area that should be a concern all of us.

And when you talk about the intimidation of witnesses, a couple of weeks ago I was in a conference in Zurich of journalists from the east. Some of them were journalists from one of the Lithuanian newspapers, and their editor had just been shot down in front of his office by organized criminals.

So the intimidation is immense, and you also at the same time are talking about huge amounts of money in profits. And where is the money in profits going? It's coming from—this is based on the smuggling of metals and illegitimate goods which become legitimate as soon as they leave the borders of Russia and are smuggled out through Lithuania, through Latvia, through Estonia, to the west.

And they appear mysteriously in the legitimate auction halls of Sweden, Germany, London, and they end up here. So we do have a role to play in stopping this while we're sitting there. We can't do very much, obviously, in—unfortunately, in Lithuania itself. But we can certainly create that perimeter so some of this smuggling can stop which contributes to that atmosphere.

Ms. Shelley. OK. I can speak directly to this issue. As you may have noticed on my statement, I'm listed as a consultant to the ARD Checchi rule of law program, which happened about a month ago as a response to concerns raised by Congress. The administration responded that something needed to be done on the organized crime issue, which is something I and Mr. Handelman have been pressing from the outside for a long time.

And one of the points that I've been making is the same thing that you are—that there needs to be a comprehensive approach that's not piecemeal, and I've had a very good response when I have said this.

The second point that I have made which should be of interest to you as a Lithuanian is that I've said that we should focus on CIS. We cannot be thinking about this organized crime issue in terms of putting the Baltics in eastern Europe and treating the other 12 countries of the CIS as a separate entity. Because so much of the exportation is going on through Estonia, so much of the money laundering is going on through Latvia, and former USSR has to be thought of as a whole entity in the organized crime area. It should not be divided up by spheres of influence.

The first point I made on this privatization effort concerns the next huge sum of money that is going into the former Soviet Union. This is outside this rule of law area where I'm working in. The massive appropriation of funds in this area just drowns out the amount of money that's going into rule of law and yet there is no attention is being paid to the problem of organized crime in this area.

And I think this is something that Congress needs to do, because it not only undermines the privatization process, in fact it makes us in some ways accessories to criminal activity, which is the last thing the United States government wants to be doing through its AID process.

Now that I'm advising on how not to do this, I can say also that I think it's very important for this pressure to be kept on. We have in our powers in our country where one part can influence the other. That's what we should be working on with the former Soviet Union as well.

Mr. Wise. The gentleman over here?

Mr. Anderson. My name is Martin Anderson. I'm a former professional staff member with the Senate Foreign Relations Committee.

I can relate to the—the frustrations expressed by the first question because when Senator Cranston, who was my boss at the time, was trying to get the Bush administration to look at international administrations, particularly in the former Soviet Union, and to tell them that those warnings that now are very common you hear from the FBI director and from the CIA director, nobody wanted—the old cold warriors at that time didn't want to listen to that. They were all patting themselves on the back and AID was sponsoring eating, meeting, and greeting conferences with lawyers in eastern Europe and the former Soviet Union rather than engaging with law enforcement, which is where the battle is really going to be joined.

You can't hope to know who the good players and the bad players are in administration of justice, and once you're engaged—and then you have people on the ground who can identify perhaps the specific questions, what is—I want to ask both of you—what the bureaucratic turf battle is right now—in the U.S. government between the intelligence community and the law enforcement community, particularly when you have a CIA director who is correctly warning about all the grave dangers, but the CIA 4 months ago was involved with the FBI in a turf battle on whether to have—let the FBI open a legal attache's office in Moscow.

And it seems to me that the FBI has a very, very important role to play, and that if our intelligence agencies, who have a history of being in bed with criminals during the Cold War anyway, then are trying to arrogate the law enforcement or administration of justice role, it seems to me a little bit contradictory.

Second of all, it—during the last decade, there has been some very successful experiences in Latin America of the U.S. assistance for administration of justice. What—knowing that the situations, of course, are much, much different, is there anything in the experience of Latin America, particularly U.S. assistance, police forces, and other forces of the rule of law in those countries that might be applicable to the countries in the former Soviet Union?

Mr. Wise. Who wants to go first?

Dr. Shelley?

Ms. Shelley. First of all, in my statement I made a point that I thought it was very useful that the FBI had now established a presence in Moscow, I think it's important that we extend this presence to other areas because much of the coordination that is going on concerning organized crime is going on through Moscow.

We are replicating what happened in the Soviet period, that we are dealing all through Moscow. Much of this organized crime activity isn't in Russia, but it is also throughout the former Soviet Union. We should not be depending on the Russians to be running and providing us all of the information that we need to be understanding this problem. We should be expanding our involvement with other countries that have emerged from the former Soviet Union. That's the first point on the role of the FBI.

Secondly, the problem is much larger than just a law enforcement problem, and we've talked about assisting in the legislatures, working with prosecutors, and working with judges who are subject to intimidation. It's much more complex. With all of the problems in training police, this is not exactly what we should be involved in. I am quite concerned about that.

Having worked in comparative studies with Latin America, there have been some positive things that we've done, but if you went to a conference of criminologists and people working in justice reform, in Latin America there is also very much criticism of what we've done in police training in Panama and elsewhere.

And I think we have to be extremely careful of that because the sensitivity of the Russian and post-Soviet population towards the law enforcement system is very high and there has not been anywhere with the exception of Estonia, a full-scale reform of its police training.

We should be aware of that and be concentrating on police activities that increase the ability to collect evidence that are scientific, rather than give training that can then be transferred to the security forces of organized crime.

We need an overall plan based on an assessment of what is going on with the crime problem. The plan needs to combine law enforcement, economic assistance, political exchanges, strengthening investigative journalism. These things are working towards developing civil society. And it's very harmful for an effort to focus on just one area.

That we have begun in the law enforcement area and are increasing our capacity there is important, but it also should not be something that is totally Russian oriented. That's another problem of our general policy, and that's something that should not be repeated in the organized crime area.

Mr. Wise. OK. If you'd keep your questions as short as possible, we just have a few minutes left.

The gentleman in the center?

Mr. Krasnow. Thank you. I'm Vladislav Georgevich Krasnow from the Russian-American Goodwill Associates here in Washington, DC.

I enjoyed the presentation by both speakers. As a matter of fact, I remember Mr. Handelmann and his appearance at the George Soros-sponsored conference in New York over a year ago, when he was just about the only voice which was heard on that.

I know people who were saying that perhaps excessive enthusiasm about the prospect of the changes going on were paying no or little attention to crime, just like the U.S. government.

Well, my question is—both the speakers also mentioned the international dimension of the Russian mafiya crime operations. And, in this connection, I would like to ask you if you could elaborate briefly on the Russian mafiya crime this side of the ocean, in the United States.

After all, there were numerous reports about the Soviet mafiya in New York enduring the Brezhnev era, saying that the Soviet mafiya was more extensive and certainly more sophisticated than the Italian mafiya in the United States.

Perhaps you have some leads to elaborate and say, "Well, were there any arrests here." After all, the money laundering business takes some American participation in this sort of crime, or Russian crimes.

Mr. Handelmann. I'll try to be very brief on it. It's obviously a big area that you've asked.

It—the crime, Russian crime, Soviet crime, in the U.S. and North America and the west really could be broken down two waves. The first wave began in the Brezhnev years,



the first early groups of emigrates who came out of Russia to the U.S. and settled in Europe and Israel.

Among many of these people were some of these black marketeers, wheelers and dealers, scam artists, who were well-known for their associations with small criminal groups, forms of bribery, the "trade mafiya" as they called it, in Soviet Russia at that time.

Many of these people ended up in the States. As one of the earlier questioners pointed out, they had very little problem getting in because of their past help to American agencies in providing information in Soviet Russia at that time.

And one of the early mafiosi or crime leaders in Brighton Beach often boasted that he had thrown a birthday party for Mikhail Gorbachev when he was just the head of the a regional party committee.

These people were small-time, flim-flam artists. They came to—to New York and other parts of the States, to Canada, and did what they knew how to do best. They mainly preyed on the Russian emigre community.

Then, after the system fell, you saw what I would call now "the second wave." These are the people who are the more traditional criminals, the members of these organized crime societies which I described earlier.

These are the vori, the godfathers who have been asked to come over here by their various counsels inside Russia to investigate the economic potential of America, Europe, and other parts of the world.

In the process, they have aroused the interest, and they have also been interested in, the activities of other international crime groups, primarily the Colombians and the Italians, and there is a lot of evidence to suggest they have had several meetings with groups in parts of Europe to discuss ways of assisting each other.

Some people have taken this to mean that there is a developing global crime network. I don't—wouldn't go as far as that because criminals are just like governments. I mean, they can't—governments can't get—can't get it together; criminals can't either.

There are all sorts of arguments, nationalistic problems between them, but what is true about the Russian—the second wave of this Russian and post-Soviet criminal that has come over to America and to Canada and to other parts of—and to parts of Europe is that he is much more violent than many of the criminals, many of the criminal groups that we're used to.

These people are well educated. Many of them have degrees in physics, communications. They're good businessmen. They're very clever and skillful. They—they have made a lot of money here. And behind them comes a great deal of support from the old Soviet communist structures—the bureaucrats, the nomenklatura, who have been quietly investing a lot of their money since well before the—the collapse of the Soviet state.

This is not just a sensational point, it has been documented in some of the archives of the communist party that have been released to the public. I've seen some of them. They've been published in newspapers around Moscow.

So what you see now in the west is an attempt by a lot of these groups to use the money that they're making out of Russia, invest it here, turn it around and launder it and bring it back to Russia and invest in legitimate businesses in Russia.

So far, as far as I can see, the main aim and the goal of this second wave is to get involved in the power fight, the power struggle inside Russia itself. In the process, of

course, you get a lot of violence and corruption and illegitimate activity in the States, not as much, however, yet as you would expect to find under the Italian or the Columbia syndicates.

But this also is beginning to change. I understand that a couple of weeks ago, perhaps about a month or so ago, there was a meeting of some leading Russian Vori in Miami, which some police authorities call "the Russian version of the Appalachia meeting of 1957."

I don't know if I'd go that far, but a lot of these guys who come in are now on the level of the Russian godfather, who are interested in getting involved in drug trafficking and in other kinds of traditional criminal activity. And it's obviously something that we need to begin worrying about, but we're not even at the—we're not at the stage to handle it in Russia, and we're certainly not in the stage here in the west. We don't have the language, the cultural understanding to understand the ways these people operate.

Ms. Shelley. I would add there's one special concern of post-Soviet organized crime in the United States, as it has been in Germany, that is the problem of fraud. The losses on the gasoline tax cases in the tri-state area of New York, New Jersey, Pennsylvania, and in the Medicaid fraud in California, have been enormous, in the hundreds of millions if not the billion-dollar range.

This is very costly crime that takes special sophistication to investigate. And there is also the problem of money laundering which is affecting our banking system as well.

Mr. Wise. Unless there are technical reasons that we cannot extend just a little bit longer, I'll take these three gentlemen that are at the microphones now as the final questions.

Again, I ask you please to keep your questions as short and concise as possible. Start with the right.

#### **Audience Member.**

Recently, the Chief of the Russian version of the FBI in an interview with Izvestia Magazine said that if Russia really wants to fight crime it must reintroduce some kind of totalitarian measures. He pointed out that he is not a politician and he wrote it from a purely professional point. Could you comment on that, this professional relationship to totalitarian measures.

Ms. Shelley. I would say that the United States and Italy have had some success in fighting organized crime without the use of totalitarian measures. One of the most effective ways of fighting organized crime is by establishing a legal infrastructure, establishing legal norms that one needs to fight it, and, secondly, going after the economic benefits of organized crime through legislation against money laundering, and providing for asset forfeiture. These measures really harm organized crime and its activities.

One can take authoritarian measures and go out and shoot members of organized crime or just incarcerate large numbers of them. With this there is only a certain amount of success because organized crime figures often find out that they can operate from within prison almost as well as they can operate from outside prison.

So what one needs to do is reduce the benefits of organized crime and increase the costs of it.

Mr. Handelman. Yeah. There is—I have a conflict between my head and my heart in responding to your question, because obviously the problem of dealing with crime in Russia is compounded by the fact that no matter how much we would like to use Western

methods to deal with crime, the level of expertise and sophistication is just not present among Russian law enforcement authorities right now.

I can give you one example. For instance, you may know—that during the attempted coup in—in '91, the first day of the coup the leaders, the putsch leaders, announced a resolution saying that they were going to stop crime in the streets. It was going to be their war on crime.

There was another resolution that was not published. It would have been published on the third day of the coup if they had—they had succeeded, and that resolution would have put 20,000 police and army troops out in the streets in Moscow and other major cities.

It would be an—an expansion of a program that already had started about 6 months earlier around Russia, around the Soviet Union at that time. And some of the policemen I talked to in Moscow had seen that resolution, and they reacted to it at that time with a great deal of hostility, oddly enough.

They were like everybody else in Russia, pro-Democrats. They were saying, "This is not the way you go about changing society. This is—this is the old thing. This is how they used to do it. We can't do this."

But their attitude towards that has changed within a year, two years. Now you'll find a lot of policemen and a lot of law enforcement officials saying, "It's the only way we can control the situation." Now, that doesn't necessarily mean shooting criminals as soon as you see them stealing something, as Zhirinovsky wants to do.

But you can't underestimate the attraction for ordinary people and for law enforcement authorities of having clear, visible laws and lines of authority that tell you what to do. As one policeman said to me, "You know, we're starting to reinvent the wheel in Russia, and the west has already been through that."

They talked about, for instance, the—one of the pieces of legislation that most annoys policemen in Russia today is an attempt to legalize the possession of drugs. Now, trafficking and selling is still illegal. But this was, in the Russian mind, in the legislature at that time—this is 1992—an attempt to show that Russia was moving into the new world.

It was adjusting to the human rights concerns of the west, so they legalized it. And, of course, what you see in Russia is an explosion, an absolute explosion of addiction and drug use and drug trafficking today. Maybe the two are not necessarily linked, but in the police mind, in the authorities mind, they are.

In the absence of any other kind of way to deal with these things it is obvious that we are going to have to accept the development in Russia of a very authoritarian approach to law and order. We may not like it, it is going to make the controversy about caning and Singapore look like child's play.

But the alternative to that, as Yeltsin well knows, is the establishment of a government with people not necessarily like Zhirinovsky at the head but like-minded people who will expand that authoritarian anti-crime approach towards the entire society and bring us back not to necessarily to communism or to communist society but to a very authoritarian, kind of Russian approach to government that we last saw in the early 1900's, and in the latter—last part of the last century in Russia.

So we have to I think swallow a little bit when we look at Russia and see how it tries to handle the explosion of crime and tries to move between these two aspects of protecting civil liberties, which are obviously important and key in their own development,

in Russia's development as a democratic society, and to control the chaos that obviously confronts them and which immobilizes them.

Mr. Gray. Yes. I'm Mike Gray. I'm with the American Bar Association and Central and East European Law, and I'm Associate Director of the Program of Supplying Legal Assistance for the Former Soviet Union.

I wanted to make a—some comments and then get your response on some of the observations I've made while working on this program and living in the former Soviet Union.

First and foremost, I wanted to point out that the ABA has been involved with providing legal assistance in dealing with criminal law reform and specifically organized crime and corruption. I've worked with DOJ on this matter—the Department of Justice—and we have sent two legal specialists from our program to Central Asia, to Kazakhstan and Kirghistan, to work in those countries with the governments, different agencies involved with dealing with organized crime and corruption.

We did that over a year ago, and we have been, since that time, based on comments on those specialists and our continued work with DOJ. We have continued to urge AID to focus on this issue, and we were doing that quite some time ago.

But I want to point out that I believe that the issue of organized crime and corruption is—is a symptom of some of the bigger problems dealing with legal reform of the former Soviet Union. And, specifically, a lack of accountability as the system is breaking down and being restructured.

So the work of legal assistance when you're talking about addressing the problems of organized crime and corruption, you are in fact—or should be talking about reform throughout the entire legal system, including perhaps first and foremost the promotion of an independent, legitimate, and well-trained judiciary. Because unless you have these institutions in place and working, and this is your objective, you're working to reach these objectives, then the problem of organized crime and corruption is not going to disappear; it's going to continue as long as the problems, the lack of accountability and oversight of law enforcement, government, and the private sector continue.

Mr. Wise. Is there anybody who would like to start?

Mr. Handelman. I completely agree with what you're saying. I can't think of a thing to add.

Mr. Gray. Thanks.

Mr. Wise. Dr. Shelley?

Ms. Shelley. I would agree, and I make some of these points in part of my statement that I didn't read.

Mr. Wise. Thank you.

And our final question in the center, please?

Mr. Gagarin. My name is Greg Gagarin. I am a retired international businessman, and I have been to Russia a number of times, the last time in November, as a consultant with some other—a lot of companies trying to do business.

A lot of the meetings we had with the KGB were held in Moscow and St. Petersburg. Some of the questions asked was, "How do we find out what these people have in the banks abroad?" They don't know, and it's a question of education which I think Dr. Shelley pointed out very well.

There are other points in that whole Duma arrangement where education is primary and it needs to be done. I heard Mr. Chetverikov yesterday, who is now with the firm of Goldman & Hartson and past Charge d'Affairs in Washington, say that they have 24 ambassadorial posts open throughout the world because the Foreign Minister and the Chairman of the Foreign Affairs Committee and the Duma cannot agree on who the ambassador should be.

Interestingly enough, the Chairman of the Foreign Affairs Committee and the Russian Duma is the past Ambassador here, Mr. Lukin. So—and also, very recently, that there is a group of eight Duma members coming shortly to visit the Congress. In fact, at the invitation of the USAID for looking at ways of financing and law. Eight out of 200-some, or 300-some congressman is a drop in the bucket.

But the whole thing, I think as you pointed out, and I'd like to emphasize what you said, is I'd like to see your committee, Mr. Wise, help businesses and to educate the Russians on why it has to be done, in a very diplomatic way. But that is really what they need.

Mr. Wise. OK. I'll just comment that our commission, in fact, has been active in the area of American business in Russia, and we recently had a briefing on the subject and we'll continue to pay attention to it.

Unless you all have some comment on the gentleman's statement, I will thank our panelists and thank our audience for what I found to be a very interesting and enlightening hearing.

Thank you all.

[Whereupon at 12:18 p.m., the hearing was adjourned.]



