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The collapse of the Soviet Union and the ensuing chaos produced extreme lawlessness. In rapid fashion a society with massive industrial assets plunged into an institutional vacuum. Courts, law enforcement bodies, and state regulatory agencies capable of enforcing the rules of the game for a modern market economy had to be created from scratch or rebuilt from the remnants of socialist institutions. In the absence of effective state institutions, firms turned to alternative forms of protecting property and enforcing contracts. Mafia racketeers and private security agencies provided physical protection, collected debts, and adjudicated disputes among firms. When large sums of money were at stake, contract killings became a prominent method of accumulating and protecting assets. In short, outright force or the threat of physical coercion became common tools for protecting property and ensuring adherence to business agreements.

Today, two decades after the fall of the Iron Curtain, high-profile cases of property rights abuses continue to dominate journalistic accounts of Russia, as well as many policy and academic studies. But this narrow focus is misleading. It offers a skewed portrayal of modern-day Russian business practices. In part, this is because such accounts often concentrate on a handful of tycoons and the extent to which these “oligarchs” hinder or promote the development of the rule of law.

By contrast, my ongoing research, based on surveys of Russian enterprises and in-depth interviews with Russian businesspeople, lawyers, and private security agencies, reveals a fundamental shift in threats to property rights in Russia. Whereas extortion racketeers and other forms of physical intimidation once posed the gravest threat to property rights, state actors are now the primary aggressors. There has been a dramatic decline in threats related to private coercion, due partly to firms’ increased reliance on formal legal institutions. By contrast, state threats to property rights have increased sharply. Key threats include seizing firms’ assets, illegal corporate raiding, extortion, illicit fines, and unlawful arrests of businesspeople.

The decline of private force
Criminal racketeers now play a minimal role in Russian business. In the late 1990s, surveys reported that more than 40% of small firms experienced recent contact with protection rackets. By contrast, less than 8% of small firms (and less than 4% of all respondents) reported such contact in a survey I conducted during the summer of 2010. Similarly, whereas approximately 40% of businesspeople in the late 1990s reported having experienced violence or threats of violence, less than 5% reported such incidents in my recent survey. Research by Russian sociologists confirms these findings. N.S. Matveeva, for example, analyzed murders of businessmen in the Central Federal District of Russia and found that such murders have fallen yearly, from over 200 in 1997 to 33 in 2005.

The rise of law
Russian firms now use the courts extensively. The number of annual cases initiated by firms in Russia’s commercial courts (arbitrazhnie sudy) rose from a low point of approximately 200,000 in 1994 to over 1 million by 2009—a 400% increase. This rise is not due to increased conflicts but rather to firms’ increased willingness to use litigation. According to my survey, 54% of respondents reported being more willing to turn to the courts today as compared to 10 years ago. Meanwhile, 33% of respondents said that their willingness to use the courts remained unchanged, and only 6% of respondents replied that they would be less willing. Even far outside of the major cities, increased use of courts is apparent. As a lawyer in the Siberian town of Barnaul explained to me, “People more or less have come to resolve disputes in a civilized way, by going to court...[The courts are so full that] to move through the corridors of a courthouse is now impossible.” Firms increasingly are willing to litigate even against the government. Between 2000 and 2008, cases against the tax authorities and similar government agencies rose from around 24,000 to over 90,000.

The emergence of a predatory state
The decline of violence and criminal racketeers is a significant improvement in the Russian business climate. But other types of threats have risen in their place. As Russian firms turned away from private force in the mid-to-late 1990s, they began to rely on corrupt government officials. For a fee, law enforcement officials offered many of the same services previously provided by criminal protection racketeers, such as debt collection, contract enforcement, and adjudication of disputes. Along with law enforcement racketeers, corrupt bureaucrats continue to pose a significant challenge for Russian businesses. At times, government officials themselves instigate inspections or harassment of businesses in order to receive bribes. In other cases, firms pay officials to selectively conduct tax, fire, or sanitation inspections in order to pressure competitors or counterparties in a dispute. In the survey I conducted, 25% of firms reported a violation of their legal rights related to collection of fines or payments by a government agency.

The most fearsome threat occurs when law enforcement officials, either at their own behest or on behalf of a paying client, threaten entrepreneurs with trumped up criminal charges such as fraud or money laundering. To avoid prosecution, firms are forced to pay bribes or sell off assets at below market prices. Nearly 6% of respondents—more than 1 out of every 17 firms—in the 2010 survey I conducted reported having been charged with crimes they did not commit.

Conclusion
The Russian business world has undergone a remarkable transformation throughout the last two decades. The coercion and criminality of the 1990s have largely faded into the past, but new forms of corruption and extortion, often linked to state officials, continue to make Russia a rugged place to do business. Russian firms are increasingly willing to rely on the judicial system and law enforcement agencies to resolve business conflicts. In this sense, a “demand” for law is emerging from the private sector. Whether Russia’s leaders are willing and capable of providing a “supply” of high-quality legal institutions remains to be seen.

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