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Why Russia's Mafia State Is So Inefficient

By Alexei Bayer

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In "The Godfather," author Mario Puzo describes criminal boss Don Corleone's organization as a highly centralized money-making machine. The Godfather is the CEO of an underground business empire, a kind of shadowy Henry Ford who collects all the money and makes all the decisions.

In reality, large criminal enterprises are divided into semi-autonomous crews who have their own territory or specialty and are grouped around a middle-level boss. There are constant rivalries and struggles for influence in which thugs make alliances and seek support from higher-level mafiosi.

As business entities, criminal enterprises are hugely inefficient. The global drug trade, estimated at $300 billion annually, has produced no lasting fortunes. Everything is squandered or lost. Efficiency is achieved by establishing and following rules, but criminals are lawless by nature. The notion that mafia thugs live by a special "thieves' law" is a legend.

For example, Godfather Vyacheslav Ivankov, murdered in Moscow in 2009, was himself the worst offender against the law's most-sacred precepts.

Over the past 12 years, Russia has become a full-fledged mafia state. One day, historians will chart its exact structure, but it seems clear that it consists of several large families headed by President Vladimir Putin's close associates and loyal oligarchs. Alongside them, countless crews of siloviki, bureaucrats, gangsters and affiliated businessmen work on their own, their networks varying from local to nationwide.

A friend recently had her car stolen. She reported it to the local police and soon got a call from a man, who, using the description of the car she had given the cops, demanded ransom. On the web, she discovered that it is a common racket. The usual result is that the victim loses the car and the money paid in fake ransom. She tried calling internal affairs investigators at the Moscow police, but they hung up on her.

A mafia state, by definition, cannot function efficiently. Laws are fundamental to all states, and even tyrannies rely on a set of rules. Since there are no rules in a mafia state, even minor decisions require complex deals that involve negotiating among various gangs and their conflicting interests. Agreements hold only as long as there is muscle to enforce them. The state is a tool of those who have the muscle, but a criminal can turn into a victim at a moment's notice.

Because all decisions are a trade-off, once something is decided it is very hard to change. The case of lawyer Sergei Magnitsky harms Russia's national prestige and Putin's personal reputation. Yet the thugs involved in this crime can't be brought to justice because this would infringe on some gang's interests.

But a mafia state contains the seeds of its own demise. In 2011, $84 billion of capital fled Russia, and another $33 billion was taken out of the country in the first quarter of 2012, even though the Russian economy is growing and the rest of the world is in a downturn. This money mainly belongs to bureaucrats, siloviki and other mafiosi. These beneficiaries of the mafia state don't trust their own system, nor do most of them want to live in Russia.

There is a famous anecdote about the late John Gotti, the head of the notorious Gambino mafia family in New York. He once bragged to an old, respected mafioso that he had "made" his son — that is, his son had become a full member of the mafia. "I'm sorry to hear that," the old man replied.

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