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# Politics and Practices in Post-Soviet ‘Business’\*: between shame and success

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## ABSTRACT

This article looks at the institutional and cultural roots of post-Soviet business revealing the paradoxes in which the new businessmen are caught, that of new actors using their ex-Soviet experience and connections to act in a particularly shaped “market” economy. It reveals how post-Soviet business fed from the Soviet old institutional setting and combined old resources in a new environment. For example people active in the Komsomol or the secret services were able to both enhance their wealth but adapted to the needs of “the new electoral system”. The main ethnographic example focuses on the case of an ex-Soviet businessman, who acted as an intermediary between the Western markets and the ex-Soviet political elites. He alternatively acted out a triple role, that of a western businessman, an ex-Soviet citizen and an expert, thus enabling the conversion of politics into economic gains and vice versa.

## KEYWORDS

Post-Soviet state formation, Republic of Moldova, business, politics, privatization

“Maybe you know the name and address of just one Soviet millionaire. But there are some – there must be. Since there are currency notes circulating around the country, there must be people who have lots of them. But how do we find these shrewdies?” Ostay actually sighed. Dreams of finding a rich individual had evidently troubled him for some time. “How pleasant it would be,” he said pensively, “to work with a legal millionaire in a well-organized bourgeois state with capitalist traditions. There, millionaires are popular figures. Their addresses are known. They live in large houses somewhere in Rio de Janeiro. You go straight to see them at their houses and there, in the hall, after the initial greeting, you take their money. And it’s all done nicely and politely, mind you. ‘Hello sir. May I trouble you for a moment? All right.’ Finish. And that’s it. That’s culture for you. What could be simpler? A gentleman doing business in a society of gentlemen. You don’t need to shoot at the chandelier – that’s out. But over here... Lordy, lordy, what a country we live in. Everything’s hidden, everything’s underground. Not even the Ministry of Finance with its super taxation machinery can find a Soviet millionaire. [...]”  
—Ilf and Petrov, 1971

After independence, the Republic of Moldova’s citizens were faced with a double task: state building and the transition to or construction of a market economy. Within a few years the market system had replaced the lack of goods and services with the scarcity of money. During these years, roughly speaking the 1990s, the economic and political environment was one of political turmoil and collapsing economic and welfare conditions. This article asks how people managed to survive this period and how some were able to accumulate significant wealth in an environment characterized by systemic change. Who were the people who started entrepreneurial activities and what kind of resources were available to them? What were the constraints of the new political and economic system and what kind of relations were established between entrepreneurs, bureaucrats and political elites?

The data used stems from the fieldwork research I conducted in the Republic of Moldova between June 2007 and December 2008, followed by two other short trips at the beginning of 2009. My fieldwork site was the capital city of Chişinău. I interviewed and

\*) I use the term business to denote an ambiguous activity that can be related to any sort of action that produces money, whether legally or illegally, formally or informally. A symmetrical definition and discussion is put forward by Ledeneva (2006:17–27), where she defines informal practices.

1) Ilf and Petrov, *The Golden Calf*, p. 29–30, First Sphere Books Ed., 1971  
—Woodward: 2001, 115

did participant observation work with state bureaucrats, business people, young entrepreneurs, politicians, migrants, and the unemployed in Chişinău and a few other towns and villages visited on brief trips during this period. My research interest, although changing several times during my fieldwork, came to focus on how people use social relations to manage their existence.

Moldovan citizens, however, relied on the assets and knowledge that these had been socialized and already used during Soviet times. Social connections were important and cultivated, and people also relied on different sets of resources, which they usually combined and exchanged in order to survive, consume and exchange further. This system of relations and exchange was not unique to Moldova, being in fact common throughout the socialist bloc, with certain differences, and was mainly generated by the scarcity of goods and services. With the collapse of the Soviet bloc and the reorientation towards a market economy these societies began to experience a scarcity of money as opposed to a scarcity of goods. Nonetheless, people were forced to use and adapt the 'old ways' to the new economic and political conditions, being thus able to respond to the new challenges they were facing. This paper takes up the challenge of tracking how certain people used the opportunities they had and how they created new opportunities to develop entrepreneurial activities. It takes into consideration the use of social connections, specific knowledge and institutional networks that generated mechanisms of inclusion/exclusion. Cumulating my own ethnographic data with the findings of other anthropologists and social scientists in the (post)-Soviet bloc and other socialist societies, this paper claims that the state-controlled economy that created an economy of shortage gave birth to a system in which social relations, employment and social status were instrumentalized by some people in what we can call an entrepreneurial fashion, in inventive and non-prescribed ways that expanded the generally accepted definition, mostly Soviet/socialist based, of their social role. In this pa-

per I will focus specifically on how 'entrepreneurs' in the strict sense of the word emerged with the advent of Perestroika and how they pursued business in the 1990s, while also discussing the relationship between economic entrepreneurialism and electoral politics.

## The antecedents

“*Limited private enterprise never entirely disappeared during the Soviet period. Lenin’s New Economic Policy (1922–28) temporarily loosened the initial claims of the state over the means of production, and Stalin soon after denounced the ‘leftist’ practice of wage equalization that had been favored early on. In the agricultural sector, small plots of private land became one of the few ways collective farmers could sustain their households during the economy’s dimmest years. The system of perks and privileges that emerged under the Soviet banner became legendary, as did the trading strategies of Soviet factory managers who routinely over-ordered supply goods in order to participate in expansive circles of barter and influence*”  
— Grant 1999: 242

Entrepreneurship flourished in the 1980s, having previously been the privilege of a small elite. With the advent of *Perestroika* important avenues for money were created by people who occupied important positions within the state apparatus or by people not formally within the state bureaucracy but who benefited from their positions in important organizations (e.g. the Communist Youth League – the *Komsomol*).

If we take the example of the *Komsomol*, as this has also been researched by others, we see that this was not only a political organization for Party cadres, but also a tool for socialization and control within the Soviet Union. Ambitious and well-educated young people from different parts of the Soviet Union’s huge territory were able to meet



and socialize at *Komsomol* activities and labor camps. It is precisely this function of providing a structure of power encompassing the entire Soviet Union, and less that of labor pooling for large-scale state projects (Pilkington 1994), that proved more enduring than the Soviet Union itself. As Yurchak (1999) shows, the *Komsomol* provided an organizational platform that served as a springboard for the political and business careers of some of its members who held administrative positions of greater or lesser importance throughout the 1980s. Members of the *Komsomol* were not only appointed to good positions, some of them were also eager to carry on climbing up the social ladder. Encouraged by the new policy of the Soviet leadership to create initiative and markets, they turned the activities of the arts and research development centers, for example, into trade and production centers.

The *Komsomol* collected large sums of money through the contributions of its many members. These funds were easily diverted to private use amid the pervasive ambiguity of property rights and a loosening of legal constraints. Some of the organization's members were very active, well connected and eager to make money. For many, money making opportunities were easy to identify in the area of trade and commercial ventures in a society living with an entrenched feeling of scarcity.

The importance of the *Komsomol* cadres as the recruitment pool for the new entrepreneurial elite at the start of the market reforms was similar throughout the Soviet Union. The *Komsomol* became the recruitment pool from which Moldova's post-independence politicians and business elite emerged. One of the investigative journalists<sup>1</sup> I met produced for me a list of the most important Moldova-based businessmen of the 1990s. He emphasized that the more important businessmen used to hold senior positions within the *Komsomol* at that time. These businessmen were not known to the majority of people I talked to, but were known by other businessmen active during the same period. A few of them were well connected with the political establishment and in return for their support

for certain political leaders would receive large state contracts. Their ascendance began during Perestroika within the local organizations of the *Komsomol*. The circle of 'important' businessmen in Moldova somehow reproduced the same mechanisms of inclusion and exclusion that functioned in socialist societies, in which networks of people created circles of 'svoi' (eng. 'us') (Wedel 1986, Humphrey 2001, Yurchak 2006).

Some of my informants, when asked how the first businessmen appeared in Moldova, claimed that the businessmen of the 1990s may have been well-positioned bureaucrats who illegally accumulated large amounts of cash during the Soviet period through corruption. Some of these businessmen even did business in the state-controlled economy during the Soviet period by acting as "shadow" businessmen on the black market. Later, the informants said, during the early years of the new market economy, these people used the cash they had accumulated for investments or to open lucrative businesses, thus becoming the first generation of capitalists.

Moreover, even at the time of my fieldwork, several of my acquaintances mentioned personally knowing someone who had secretly accumulated money during the Soviet period. The practice of hiding money was associated with the fact that any form of cash accumulation can only have been made by 'illegal' and 'immoral' means. The stigmatization of any form of private accumulation propagated a reluctance, sometimes even fear, about disclosing one's wealth. As one important businessman in Moldova told me, "In Moldova, the majority sees business as good, but businessmen are considered evil". This perception made business people in the post-Soviet period, and even to this day, afraid to use their cash in the private enterprises run directly by them.<sup>2</sup> Observers and people involved in business claim that the usual solution in this situation was to find 'partners' to act as front-men. Others, fearful of being discovered, still secretly holding on to their piles of cash to this day. For some, knowing someone like this and the resources he has, was one way to get into business in

1) Ghenadii was the director/editor-in-chief of *Moldavski Vedomosti*, a Russian language newspaper with a focus on investigations and one of the most critical newspapers of the government and president Voronin. When I think back to my meeting with Ghenadii, I recall how he was very careful not to be seen in my company by his colleagues. His stories focused on the political economy of post-independent Moldova and he focused exclusively on the relationship between political and business elites, a relationship I will address towards the end of this article.

2) At that time large amounts of money could be obtained only illegally by getting involved in criminal activities, the black market or corruption.

the 1990s – through an agreement entered into with the holder of the cash in which the front-entrepreneur used the money of someone who wanted to avoid social exposure.

Reluctance to be identified as a businessman in unknown situations and in front of people who represent a risk was a common fear among business people in Moldova and it remains so today. I understood this soon after I arrived in the field. Indeed, one of the biggest difficulties encountered during my fieldwork turned out to be meeting and holding open conversations with business people. Meetings would usually be postponed or cancelled, while those who agreed to meet me would be reluctant to hold an open conversation. Others whom I contacted either turned down my request for a meeting or began avoiding my calls. The most cautious refused to have a meeting with an unknown person, even when they had been asked by close friends or a member of the family. The justification provided by the intermediaries was that these people had obtained their businesses by illegal means. Others kept postponing the proposed meetings until I was unable to contact them or I gave up.

Other direct excuses given by business people and bureaucrats for refusing meetings involved a lack of time. However, it is hard to categorize these people clearly as business people, since many were pursuing different activities that they did not necessarily consider entrepreneurial. Some, whose activity was “entrepreneurial” but not considered of sufficient importance, would ironically describe their businesses in terms such as: “I am a businessman, too. I transport people from Chişinău to Orhei with my own bus.” But this was often an ironic reference to what was seen as a poor relation to a real business activity – understood in terms of a sizeable rate of accumulation, as opposed to the uncertain conditions and low revenues of these smaller entrepreneurs, who were merely making a living.

In more than a year I managed to meet over a dozen business people, some of which bigger businesses, while others had smaller businesses or were self-employed. I also

talked to people who wanted to work on entrepreneurial projects of their own or had done in the past.

In case of the ‘important’ businessmen who did not want to meet me, I understood from others that their refusal was motivated by a fear of meeting an unknown person and the possible consequences their sharing information could have on their lives and businesses.

One major concern was the possibility of being hunted down by the state’s law enforcement institutions. At the time of my fieldwork, people often described how businessmen were being intimidated by the police, the anti-corruption agency or the tax office. Other stories involved high-ranking politicians and the son of the president, an important businessmen himself, who, so the rumor went, orchestrated the inspections and accusations as an extortion technique by which to take over profitable businesses.

Whether true or not, the phenomenon described by the rumors and the fear business people displayed needs to be placed in a historical perspective. As the quotation at the beginning of this chapter shows, preying on someone else’s property was possible because all wealth in the Soviet Union was ‘illegal’ unless allocated by the state. Property rights were consequently denied rather than protected. It was not property as such but the enjoyment of wealth that came with a position within the state-party apparatus. However, this privilege could be withdrawn at any moment if the position was lost or for any manner of reasons and the bureaucrat/apparatchik punished. This loss could be as arbitrary and unexpected as the original appointment to the position.

Among the working classes, access to privileges and better material conditions was granted by the state and theoretically depended on the workplace and productivity. Within work teams, peer pressure was promoted to help enforce equality as well as to stimulate productivity. However, privileges and the allocation of material benefits were rarely granted on an individual basis. The Soviet system encouraged solidarity among work teams, and differentiation within these



groups was perceived as immoral and a threat to the team's solidarity and greater achievement (Humphrey 2002).<sup>3</sup> Individual effort was supposed to serve both a common good and the state, and was not normally recognized as an individual achievement in itself, although the Soviet state would celebrate the best workers as heroes. Moreover, the Soviet type of individual "success" meant adherence to and eventual pursuit of a state-defined social trajectory. The model was based on a cult of work and adherence to a centrally defined social and political behavior controlled by the Soviet state propaganda. These models varied in their details during the decade-long period of Soviet rule as the Communist Party leaders changed their approaches and adapted different policies. However, overall, different versions of the model were centrally defined and propagandized. Individuals' had to contribute to the well-being of everyone and, beyond this, the Communist ideals and the interest of the state.

The fall of the Soviet Union represented a denial of these long formed perceptions of rewards from the state and the measurement of social recognition according to position and hard work. Furthermore, the communist ideals were rejected and the market ideology promoted: individual success and material accumulation were declared moral virtues and the entrepreneur was the new *hero* (Yurchak 2003). This sudden change led to societal breakdown, and a feeling of social and moral chaos was felt by the majority of the population. Violence, together with the collapse of the central authority, was one of the factors behind the explosion of insecurity. The collapse of the central authority and the use of violence created previously uncharted possibilities – all up for grabs – of wealth accumulation and different forms of entrepreneurship. I will detail this phenomenon in Moldova and the former Soviet Union in the next section of this article.

In the second half of the 1980s violence spread throughout the Soviet Union, both as a form of social behavior and a form of artistic and political expression.<sup>4</sup> The collapse of the Soviet Union at the beginning of the

1990s led to even more pervasive violence as the state authority collapsed and different semi-autonomous sovereignties populated the space left vacant by the collapse of the central institution (Humphrey 2004b).

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### Business in independent Moldova: violence, the specter of chaos and the uncharted possibilities of the post-Soviet world

During the 1990s violent entrepreneurship was booming in post-Soviet space, as most locals who lived through the period recall. The Moldovans remember the 1990s as a period of social and economic collapse in which violent or "criminal" groups dominated public space. The feeling of insecurity engendered by violence and crime led to the perception that public space was inhospitable and dangerous. By contrast, the private space of the home was a place where one felt free and safe, albeit it required securing<sup>5</sup> against intrusion. People refer to this period as a period of total disorder and moral collapse, as encapsulated in the term *chaos – bardak* in the local language. Nazpary (2002: 2) explains the use of the term *bardak* in Kazakhstan in the mid 1990s through a cultural definition that seems to encompass the whole ex-Soviet bloc: "*Bardak* is a metaphor with multiple interrelated meanings. It generally connotes the extreme legal and moral disorder in social life. When it is used to describe a field of social relations it means that the interaction between people is based on illegal and immoral ways such as chicanery, corruption and use of force. The very arbitrariness inherent in the current situation is described as an absolute disorder (chaos). It is used to describe disorder and lack of control in a person's mind or life as well."

The gaining of the independence in Moldova was also associated with a gradual privatization of the exercise of authority, previously the monopoly of the Soviet state. Humphrey (2002: 5–20, *ibid.*: 69–98 and

3) Humphrey (2001) explains how the reforms in the Soviet Union focused on stimulation of efficiency and competition; this state strategy of incentives bound different categories of performers to the same benefits and rewards in terms of material gains.

4) Yurchak (2008) describes how violence became a form of artistic expression in the context of late Soviet official discourse. Public forms of violence or simulations of violence were a way to escape the strict definitions of the Soviet person and its counterpart, the *dissident*. Yurchak claims that violence and death as a form of expression was a way to escape the self-referential discourse generated by the Soviet leaders through a continuous technique of referencing the discourse of the Party and its leaders, the discourse therefore achieved a suspension of meaning and thus, despite being declared non-political, had a political function (2006). Moreover, much artistic production from this period, the so-called "dark-age", was concerned with violence as a means of expression. Therefore, the meaning and use of violence in that specific period is not only confined to entrepreneurial activities, but was also a larger phenomenon of the end of the 1980s and the 1990s.

5) There was an explosion of metal doors with all sorts of sophisticated locks in the apartment blocks of Moldovan cities during the 1990s. The fear of a break-in was very much present during my fieldwork; for example, one of the apartments I rented in Chişinău had a thick metal door and a wooden door right next to it. The metal door had four locks, while the wooden door had only one. There was also a common door separating the entrance area to my apartment and the neighboring apartment from the building's staircase. This is a common arrangement in most flats in Chişinău: an external door separating a small common space for two or three flats (the door could be either metal or wooden) and then another set of doors (metal and wood) for the entrance to each apartment. The metal doors might have special locking devices in the form of large keys or screws that lock and unlock mechanisms hidden inside the door; if I had used all the locking devices available for my apartment, the weight of the keys and screws I would have had to carry around with me would have been around half a kilogram.

2004: 418–438) and Volkov (2002) explain that a similar phenomenon occurred in Russia where privatization dissolved the center's exercise of authority into a system of localized sovereignties, sometimes as far down as neighborhood gangs. These entities were forced to negotiate and conduct exchanges among themselves on the basis of mutual agreement, but relations often turned into conflict with various degrees of violence used. That said, both the aforementioned anthropologists show that these sovereignties were in fact nestled in hierarchies in which state institutions were taking part.

Although it came in waves and contained contradictory policies, the political program of the new Moldovan state was focused on privatization. New state and non-state organizations were created to implement the privatization process. In these new organizations, a new class of 'experts', mostly young people who had just graduated from university, worked alongside former state bureaucrats. They oversaw the dismantling of the industrial and agricultural complexes built during the Soviet era. During privatization, the ex-Soviet managerial elite, state officials and insiders in the privatization process concentrated property and stock in the hands of a few (Wedel 2001). The vast majority regarded privatization as uncontrolled and violent theft. Take, for example, a statement made by an insider in the privatization process, a young man who was in his early 20s during the peak of the privatization process. He was an advisor to the president of the National Securities Commission, the equivalent of the Securities Commission in the United States of America or the Financial and Securities Agency in the United Kingdom:

"Nevertheless, the capitalist relations started to win, and all of those interested realized that in order to dispose of a company they had to obtain its property rights – the stocks. It started with what Marx coined 'the primary accumulation of capital' or in our case 'the big race for stock'. In this race there were three main categories of 'investor': the managers of the enterprise being put onto the 'market' who realized that without becoming

stockowners they could not remain as managers indefinitely; the actual stockowners who wanted to gain control or consolidate their control over the company; and other parties interested in the activity or the assets of the company. A feverish period of property redistribution followed, a golden age for the independent registrars, the stock exchange and our brokers. Oh, there's so many delicious stories I can tell you about the big scams during those times...so many unexpected turnarounds going on...to the sort of general meetings of stockowners I took part in, where there were men armed with machin-guns facing each other, where the director threw his chair at the president of the general council [of the stockowners], general meetings announced at obscure addresses the majority of the stockholders could not get to. Oh, how the directors of the former *kolhozs* used to sell the stock that belonged to their own *kolhoz* [to the people who were part of them (a/n)] (since the *kolhoz* got stock for the companies processing their products) without anyone from the village knowing about it. Ah, how a bulldozer commissioned by a director chosen by one group of stock owners drove through the gate being defended by the employees of the company who were supporting another director, designated by an opposing group of stock owners..."<sup>6</sup>

This phenomenon was common in post-Soviet space. In Russia "[...] the move toward privatization, or *privatizatsiia*, was quickly likened to a 'grabitizaton', or *prikhvatizatsia*. The most common scenario was for managers of the state firms to install themselves as the de facto owners, using their influence to run their new companies like small satrapies which often buckled under the weight of their inherited debts. The more spectacular robber baron successes have led men like former auto dealer Boris Berezoviski to insist that he and six other men control over 50 percent of the Russian economy (Forbes magazine 1996)" (Grant 1999: 242).

In Moldova the general perception is that privatization was also a process of *prikhvatizatsia*, a perception that substitutes what appears to be a complex process in which new



institutions, the transformation of property rights, the role of friendship and kinship networks, and the instrumentalization of bureaucratic and political rights positions were intricately linked.

The new market institutions, such as the stock exchange and the privatization programs, helped the managerial elite and people in other key positions at different organizations to acquire control over property during the 1990s through a mixture of political decisions, connections, market instruments and the newly formed institutions. By the end of the 1990s, most of the companies that survived and were still able to generate profits were concentrated among and controlled by a handful of stockowners. An experienced professional told me about the concentration of shares in the hands of a few dozen stockowners.

**Q: How many people in Moldova control these companies... an estimate?**

A: Depends on what kind of companies you're looking at, if you take the limited companies, which also means all the shops and all the manufacturers...

**Q: No, more those listed on the stock exchange.**

A: Oh, on the stock exchange I would say there are like fifty individuals.

**Q: Fifty individuals?!**

A: That's the ones who concentrated their stocks, but there are others who share companies, there are other limited companies that own other companies, it gets quite complicated.

**Q: Fifty people from Moldova or not necessarily...?**

A: If you count foreigners the number doubles.

**Q: I understand there are sixty millionaires in Moldova, well, the declared ones.**

A: If they would ...it would be ok.

**Q: Are these the same people?**

A: There are some people with extremely profitable businesses who are not share-owned companies (S.A.) and among them there are also some millionaires. Oh, and part of the fifty people I mentioned are undeclared and they do not appear in any records.

Market-oriented economists and "experts" describe this period as a period of a historical necessity, their reasoning being that in the early stages of capitalism there is a period of primitive accumulation in which property is appropriated without any rule other than the use of power, even in its violent manifestation. Ganev (2001), using what he calls *the reversed Tillyan perspective*, argues that state elites in the former socialist bloc found themselves in a very specific historical situation in which wealth accumulation did not depend on the power of the state elites to control and squeeze wealth from the citizens under their rule – as Tilly argued in the process of modern state building, where elites had to accumulate wealth to be able to wage war (1985). On the contrary, for the post-socialist elites massive amounts of wealth were already at their disposal as state property. It was therefore in their accumulative interests, once the socialist system collapsed, to weaken state institutions and therefore the state as such, in order to be able to get hold of as much as possible of what was previously declared state/public property (Ganev 2001).

In the rest of the article I will focus on a few business cases that exemplify different types of accumulation or business enterprises that appeared during the 1990s. I will focus on stories that exemplify these new modes of accumulation from the perspective of a businessman I read about and I researched from various sources.

### An "expert" and businessman wandering through ex-Soviet space

*"All people know the form through which I prevailed, but nobody knows the form through which I had organized the victory... The water doesn't have a constant form. The one that employs changes and transformations depending on its enemy is called a deity... The opponent of the one who knows how to attack has no idea of how to defend oneself... The opponent of the one who*

6) From his blog post: <http://natangarstea.blogspot.com/2010/12/cum-proasta-administrare-pietei-de.html>, accessed on 10th January 2011. When I met him, N.G. was running his own company: EVM Ltd.; he developed a personal blog and is a fiction and fantasy writer and one of the main organizers and participants in what is one of the most important social and intellectual games in Moldova: Cine Unde Cand, or CUC (a game inspired by Kto, Gde, Kagda).



*knows how to defend oneself has no idea of how to attack... If I show to the enemy any form I don't have, then I can remain whole, while the enemy becomes incomplete..."*<sup>7</sup>

7) Boris Birshtein in *Reflexive Processes and Control*. No. 2, v.1, 2002, pp. 21.

“By 1992 he had gained strength in the Russian market and, signing eight-figure contracts, had built untold wealth, which gained him the reputation of an oligarch. At the time, Russian press was mostly benign in its portrayal of Birshtein because he was personally acquainted with president Boris Yeltsin and high-flying democratic leaders, and because his contracts, which brought Russia noticeable profits, received credit even from seasoned businessmen.”<sup>8</sup>

8) Major General Alexander Nezdolya of Ukraine's Security Council, quoted from: “International Joint-Stock Group ‘Ukraina’: sinking the first iceboat of the world market”, in [www.ukraineinterbusinessnews.com/](http://www.ukraineinterbusinessnews.com/), accessed on 10th December 2009.

Boris Birshtein emigrated from the Soviet Republic of Lithuania to Israel in the late 1970s, before moving to Canada at the beginning of the 1980s, where he became known as a close advisor to various post-Soviet governments and an important businessman.

My initial interest in Boris Birshtein stems from information I was given by an investigative journalist in Chişinău. I met Ghenadii to ask him about the business environment in Moldova and how had business had evolved since independence. Ghenadii works for a newspaper in Moldova known for uncovering corruption and the hidden connections between businessmen and politicians. Unsurprisingly, Ghenadii began with the 1980s, when the first important entrepreneurs of the Soviet system began building their businesses amid the intricacies of Perestroika. In the context of a larger story about the first Moldovan businessmen, Ghenadii singled out Birshtein as one of the most important businessmen in Moldova. I could not contact Birshtein in Moldova and ask for an interview, as I was doing with other Moldovan businessmen, because he did not live in Moldova. After I left Moldova, I returned to Ghenadii's suggestion and carried out an online investigation that was in part motivated by my frustrations in carrying out my fieldwork with business people. Online I found a great deal of information in various languages about Boris Birshtein, as Ghenadii had told me.

9) With the exception of a few public figures that most people I talked to mentioned or knew of, the names of recommended business people did not overlap, reflecting a general reluctance to reveal one's own network. There may be a few specific reasons for this: one was that I was not able to become part of a network and that I was not associated with a household – my informants would never put me in contact with the whole network of a family, for example.

10) Literally means compromising material. Ledeneva (2006) documents various media related political technologies in post-Soviet Russia, Kompromat being one of them. One of the important aspects of these political technologies ▶

What I have put together here is a story that is not limited to Moldova but one that follows this person through post-Soviet space.

I find it important to note that only a few people mentioned this person's name during my fieldwork<sup>9</sup> in Moldova, where until quite recently one of his companies was in control of many significant assets in the capital city of Chişinău. I am aware that some of the sources quoted here may have been published in the form of what in the post-Soviet world is known as *Kompromat* (Ledeneva 2006: 58–91).<sup>10</sup>

I found nothing detailing how Birshtein started his business activities or what he did while he lived in Israel. What I did find began in 1985, when he moved to Canada. His best known company was Seabeco, which was founded in 1981 as a Swiss-based company. In the late 1980s Seabeco was one of the few intermediary companies bringing Western consumer products to the USSR.<sup>11</sup> The company had further branches in important financial centers, such as Zurich, New York, Moscow and Santiago. These branches were subsequently used for securing commercial contracts throughout the post-Soviet space.

After the fall of the socialist bloc, he used the firm's branches to form joint ventures with large industrial companies controlled by the first post-Soviet governments of Russia, Ukraine, Moldova, and Kyrgyzstan. At the start of 1990s, Seabeco was focused on importing Western consumer products from the West to the ex-Soviet states, while also exporting industrial and raw materials from these countries to other markets. These joint ventures functioned as intermediaries between these countries' large industrial complexes and world markets, with Birshtein's companies cashing in on the difference in price.

Birshtein contacted Western and post-Soviet governments by presenting himself as an international expert in market reforms with insider knowledge of the post-Soviet world. With the socialist bloc crumbling, Birshtein found himself in the right place at the right time. He gained access to the Canadian government, which nominated him to chair the Canada-Poland Business Council.<sup>12</sup> The fol-

lowing year, immediately after the collapse of the Soviet Union, Kyrgyzstan's president, Askar Akaev, nominated him as chairman of the *Committee for the Republic's Restoration and Development*.<sup>13</sup> "Akaev also appointed Birshtein to serve as the country's foreign trade representative and reportedly released Seabeco from any tax obligations."<sup>14</sup> Some claim that Birshtein was interested in taking control of the gold mines in northern Kyrgyzstan.<sup>15</sup> Over the next few years, Birshtein continued to act as an international expert, Western businessman and former Soviet citizen and insider for the governments of Russia, Ukraine, and Moldova.

Between 1991 and 1993 he enjoyed close relations with Kremlin officials and acquired exclusive rights to export raw materials to international markets. Birshtein was a close friend of top Kremlin officials, especially the Russian vice-president Alexander Rutskoy,<sup>16</sup> who allegedly planned the logistics for one of Russian president Boris Yeltsin's trips to the United States and Canada to meet these countries' political and business leaders before his re-election. His strategy was to create joint ventures with large state owned companies.

Seabeco formed a joint venture with a large fertilizer company in Russia, Agrochim, and a steelmaking company, Tsetvmetexport, both of which were owned by the Russian government.<sup>17</sup> Other allegations concerning Birshtein mention illegal exports of millions of tons of petrol from Russia. However, his connection with Kremlin officials ended when Alexander Rutskoy was ousted as a result of his involvement in the Russian Parliament's (the Duma) and Supreme Soviet's opposition of Boris Yeltsin in 1993. After that Birshtein's commercial activities in Russia stopped, he became the target of *Kompromat* materials, and his access to Kremlin officials was cut off.

Birshtein used the same kind of relations in neighboring Ukraine. In 1992, "Boris Birshtein suggested creating an international commercial financial joint-stock group, *Ukraina*, that would engage in export and import transactions. Birshtein's company Seabeco would receive 35% of the shares and 65% of

the shares would go to the Ukrainian state."<sup>18</sup>

He set up the Ukrainian joint venture between his Seabeco subsidiary in Zurich and the Ukrainian government's commercial entity. Here, too, his partners were a group of high-ranking state officials surrounding vice-president Kuchma. According to one of the members of the new commission formed by the Ukrainian government to supervise the new company called *Ukraina*, it was Birshtein who came up with the idea and the business plan and presented it to the Ukrainian officials. Through the newly formed joint venture company he became an intermediary between the Ukrainian metal industry (Ukraine's main industrial product) and the international markets. Under the joint venture his company had control over an impressive list of large industrial companies, monopolizing their trade abroad with the direct participation of top Ukrainian government officials.

His control of international trade by entire sectors of Ukrainian industry generated opposition to the joint venture, mainly from the companies' direct managers. Using the newly available public resources in political and economic matters, these managers began to use *kompromat* materials published through the Ukrainian media as a way to deligitimize Birshtein's presence and the activity of the *Ukraina* group. But the export of raw materials at dumping prices to international markets attracted the attention of other large traders. This probably explains the sudden interest and attention Birshtein's business activities attracted from international investigative bodies such as Interpol and Europol, who discovered that as a payback to officials who helped support enrich Birshtein and his associates, Seabeco was funding luxury holidays in Western tourist destinations for the wives and partners of the Ukrainian officials. Moreover, an international investigation into Seabeco's activities later found that two companies controlled by Boris Birshtein and his associates had transferred more than 5 million dollars to the bank account of Olexander Volkov, Kuchma's deputy. Following pressure from foreign governments and direct oppo-

10) ▶ is their embeddedness in the market and politics, something which points to the fact that both spheres are constructed reciprocally.

11) www.telusplanet.net/public/mozuz/crime/lemieszewski20001103.html accessed on 30th October 2009.

12) Lakey, Jack and Cal Millar in The Toronto Star, 26th of Aug. 1993, "Boris knows everyone... Head of firm embroiled in Russian controversy moves with high and mighty".

13) Todua, Zurab in *Kyrgyzstan after Akaev: What happened and why, what next?* Electronic resource accessed on 30th October 2009: [http://www.ca-c.org/online/2005/journal\\_eng/cac-03/02.todeng.shtml](http://www.ca-c.org/online/2005/journal_eng/cac-03/02.todeng.shtml)

14, 17) Lakey, Jack and Cal Millar in The Toronto Star, 26th August 1993, "Boris knows everyone... Head of firm embroiled in Russian controversy moves with high and mighty". Online access at www.telusplanet.net/public/mozuz/crime/lemieszewski20001103.html, on 14th October 2009.

15) www.country-data.com/cgi-bin/query/r-7687.html accessed on 14th October 2009.

16) Paradoxically, although a prophet of market liberalization, Birshtein became associated with officials that were, to say the least, skeptical about market liberalization. Alexander Ruts koy was one of the Kremlin's top officials to voice concern about the liberalization programs initiated by Boris Yeltsin (Celestine Bohlen, "Yeltsin Deputy Calls Reforms 'Economic Genocide'", The New York Times, 9th February 1992).

He participated as a combatant in the invasion of Afghanistan of the early 1980s and was captured by the enemy and delivered to the CIA, who allegedly tried to recruit him. On returning to Moscow he became an active officer of the GRU before being appointed vice-president. He was later ousted from this position after having been found to be involved in the anti-Yeltsin campaign prior to Yeltsin's second election in 1993. From [www.wikipedia.org](http://www.wikipedia.org), accessed on 30th October 2009.

18) Alexander Nezdolya, "International Joint-Stock Group 'Ukraina': sinking the first iceboat of the world market", in <http://ukraineinterbusinessnews.com/>, accessed on 30th October 2009. A. Nezdolya was a colonel in the state security service and was later appointed major general in the Security Council of Ukraine. ▶

sition from the managers, the joint venture was frozen only two years later. In 1997, as the result of Swiss police investigations and media campaigns, Kuchma's regime refused to renew Birshtein's visa to travel to Ukraine.

In the Republic of Moldova Birshtein chaired the *State Committee for Market Reforms*, but also developed his own business activities. Birshtein had access to top political leaders in many post-Soviet countries. In the case of the Moldovan political elites, Birshtein's contacts were based on his former connections at the *Komsomol*, despite having left the Soviet Union at the beginning of the 1980s.

Birshtein's operations in Moldova were carried out in association with Vladimir Koleshnichenko. The latter was head of the administrative department of the central committee of the *Komsomol* in Moldova at the end of the 1980s. Koleshnichenko's position provided him with the means to begin entrepreneurial activities on a large scale and with major advantages over the potential competition. People like him – well positioned and well-informed as a member of the institutions and networks like *Komsomol* that ran the USSR – enjoyed significant personal advantages. Their insider knowledge and access to scarce resources, including large amounts of cash, constituted valuable business capital once the signal for change had reached them. Looking at early post-Soviet entrepreneurs, Yurchak (1999) reaches the same conclusion. For example, one technique of the middle ranking *Komsomol* leaders was to dip into the Union's funds to start up their own enterprises. But as Birshtein's case also demonstrates, access to cash was only one resource: knowledge of legislative changes, a wide network of useful professional acquaintances, and political and social connections were probably even more important.

Articles published in Russian and Canadian newspapers claim that Birshtein began his business activities in Moldova after convening and heading a meeting of Russian mafia leaders in Tel Aviv in 1995 at which the different spheres of business in the ex-Soviet space were divided up. After the meeting he left his business in Ukraine and moved to Moldova.

However, this version of events contradicts the aforementioned fact that he had ceased to have access to Kuchma's circle by the mid-1990s and that his visa for Ukraine had not been renewed – probably one of the reasons Birshtein decided to refocus his business operations on neighboring Moldova.

As of the early 1990s, Birshtein was already cultivating relations with top political leaders in post-independence Moldova. He was a personal acquaintance of Mircea Snegur, who between 1990 and 1996 was the first president of independent Moldova. He was active in building family ties with Snegur during the 1990s, inviting him, for example, to be a special guest at his daughter's wedding in Canada.

The local subsidiary of Seabeco in Moldova was managing an investment fund called *Your Future (Viitorul Tau)* as well as the most important hotel in Chişinău at the height of the privatization program in the mid-1990s. According to the audit report on Seabeco issued by the KPMG N.V. (Moldova), in 1997 Birshtein and a few associates controlled four corporations registered in the Republic of Ireland and the United States (*Maximillia Ltd.*, *Sturge Ltd.* and *Paul Garnier Ltd.* (Ireland) and *Jolly LLC* (Wyoming, US)) through which they owned a further three companies in Moldova: *Jolly Allon Limited*, which operates the former Seabeco Hotel, Banca Comerciala EximBank, as mentioned earlier, and the insurance company Exim Asint S.A. Birshtein used these companies registered in different countries with different tax regimes – e.g. in Israel, the US, Ireland and Moldova – to import high-tech machinery with which to honor his exclusive contract with the Moldovan government to print Moldovan official documents: ID documents, driving licenses and passports.

Later Birshtein decided to incorporate the four corporations in which he was a major stockholder into *Trimol Goup Inc.*, which he listed on the New York Stock Exchange. "On January 6, 1998 the Company [Trimol Group Inc] acquired all of the shares of four corporations that own capital stock of three compa-

nies with business operations in Moldova,”<sup>19</sup> read the company’s 1999 annual report for the Securities and Exchange Commission.

But the change of government in 2001 placed Birshstein’s contracts with the government in a difficult situation, just like in the other former Soviet republics where he had conducted business earlier. The electoral system brought another party to power that had different clients and was unwilling to tolerate someone so closely associated with their political opponents. This again led Birshstein and his associates to sell their businesses in Moldova. As a result, the banking and insurance activities of Exim Bank and Asint were sold to Veneto Bank in Italy in 1999. And in 2007 the 10-year contract he held with the Ministry of Information expired, and the new minister controlled by Communist Party elected in 2001 refused to renew it.

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### The conversion of political power and bureaucratic office into private entrepreneurship

Posing as an expert in market reforms and a highly skillful and knowledgeable businessman explains the appeal Birshstein had among local post-Soviet elites who were looking for fast and efficient ways to gain access to international markets, while at the same time wanting to retain control over large parts of their economies. Birshstein embodied what it was these elites were looking for: a Western “expert” well connected to Western governments, a businessman with experience in Western markets, but also an ex-Soviet citizen who could easily understand their situation. Birshstein offered to become an “intermediate pocket” for a small number of groups of post-Soviet political elites who required financial resources to compete in the new system of electoral politics. Thus business people and politicians used each other’s differential access to resources and different actional possibilities to cash in on the monopolies they were maintaining or establishing in their local economies.

In particular, Birshstein became a middleman who was used by post-Soviet political elites to convert political power into cash and their cash back into political offices. This case also reveals how high-level connections between post-Soviet elites were re-networked as an effect of the changes to the institutional framework of the state and the ‘democratic’ ways of politics, thus addressing new needs for resources and political control. The new competitive electoral system shaped new types of relations between political elites and the rest of the population. People needed to be convinced and candidates needed to be advertised in “a political market”, and first and foremost this required financial resources. The wide networks of Soviet *Komsomol* organizations and the KGB formed one of the tools employed in acquiring the necessary financial resources and forging and/or disassembling political alliances. Although based on secrecy and behind-the-scenes games, these connections also produced the means to support the electoral mechanism and political competition. They allowed the democratic mechanism to be put in place and run effectively. One wonders how political elites would otherwise have been able to be involved in electoral campaigns and the costly enterprise of image making.

Ledeneva (2006) shows that electoral politics in post-Soviet Russia used several marketing technologies adapted to political and business games, such as *chernyi PR* (black PR) and *kompromat*. These technologies, often understood as political technologies (sic!), used actors and resources, such as the mass media, information, networks of people, and PR companies, as resources and actors active in the post-Soviet political-economic spheres. The subjects at which these technologies are aimed are seen as individuals that need to be convinced or manipulated, “consumers” but also individuals in a position to interpret and choose between different competing messages based on their expectations and moral evaluations.

On a different level, as this case shows, the collapse of the USSR was the beginning of a process in which the new market economies,

18) ▶ He was appointed deputy chair of a committee to supervise the *Ukraina* group’s commercial activities.

19) TMOL – 1999 Annual Report (Small Business Issuers) page 6 of 19, electronic source accessed at: <http://sec.edgar-online.com/trimol-group-inc/10ksb-annual-report-small-business-issuers/1999/04/14/section14.aspx>, on the 14th October 2009.



by that time under the control of organized crime, were infiltrated and fused with the know-how of the secret services, who entered into commercial activities on a massive scale, not least as most of their agents were already embedded in these networks owing to the nature of their activity (Ivanidze 2001, Ledeneva 1998, Volkov 2002, Yurchak 1999).

We can think of the Birshtein's case as part of a more general strategy put in place by the Soviet secret services who began setting up commercial enterprises in the "capitalist world" in the mid-1980s. It was these companies that were used to bring consumer goods to the Soviet Union that were then sold on by the new entrepreneurial class populated by *Komsomol* members (Ivanidze 2001: 4, Yurchak 1999). These insiders used *Komsomol* money, e.g. cash loans from *The State Bank* (which they could access on account of their positions even though enterprises were not allowed to receive cash from banks) and some of the funds of the Communist Party of the Soviet Union (CPSU) to import computers, electronics or other consumer goods, all of which were in great demand in the Soviet Union.

The investigative journalist Vladimir Ivandize claims that Seabeco was also a vehicle used by the Soviet and, later, Russian secret services to finance their operations abroad through legal businesses, such as trade operations, which also had an illegal side as a means to launder money from Russia's shadow economy. Birshtein posed as a 'Western investor' in post-Soviet space at a time when the privatization programs were encouraging foreign investment. Claims that Birshtein worked for the Soviet secret services and later the FSB as a foreign agent who returned to the former Soviet world to use the skills and connections he had acquired abroad<sup>20</sup> reveal the blurring of the boundaries between state and private interests in the aftermath of Soviet collapse.

Ivanidze cites a German report that claims that after the Baltic States declared independence in March 1991, the Soviet Union's external intelligence department within the KGB drafted a plan to create "600 joint enterprises managed by KGB officers and

attached to the Political Bureau of the Communist Party. Many of those joint ventures were set up in the Baltic States and countries such as India and Israel. After the putsch in 1991, the process of setting up these enterprises was speeded up. Agents abroad were ordered 'to use all contacts' to stay abroad by all means possible and to find jobs in the existing commercial structures [...] On the orders of Vladimir Kruchkov's [the KGB director at that time] these commercial enterprises financed the operations of the intelligence services and developed broad economic relations on the international markets. Offshore zones were used to obtain profits from numerous financial operations." (2001: 4)

Birshtein's case hints at the ways in which the most powerful branch of the Soviet state structure – the secret police – made a large-scale switch to commercial activities, thus blurring the bureaucratic boundaries as well as the accountability of the secret services to the other structures of the state and the general population. The secrecy and the ability of these people to act in different roles added to the confusion amid which active agents were ordered to infiltrate a commercial enterprise and former secret service employees starting their own private businesses or working for private entrepreneurs acted in the same manner. In this situation the boundaries between state and private interests (mostly based on networks of people) were kept blurry by the capacity of these actors to operate in different spheres, albeit ideologically these boundaries were as clearly defined as in a liberal state (Mitchell 1991). Thus the market became an instrument for a number of actors to legitimize their newly acquired wealth.

The adaptation of the secret services to become active players on the post-Soviet market probably has three other important dimensions, as can be concluded from the Birshtein case and additional literature. Firstly, state institutions, which were built on the idea of defense and aggression, needed to find new ways to respond to what they considered the new threats to the societies they were claiming to defend. They thus needed to 'infiltrate the new major 'threats' – i.e. pri-

20) See Ivanidze, Vladimir, "Russian Secret Services and The Mafia", in *The Eurasian Politician*, Issue 4 (August 2001), accessed at users.jyu.fi/~aphamala/pe/issue4/kgbmafia.htm, on 14th October 2009.

vate businesses. Secondly these institutions needed to develop new strategies by becoming involved in the market to compensate for their lack of financial resources, what Yurchak (1999) identifies as *entrepreneurial governmentality*. Thirdly, active and former agents' involvement in the market also provided an individual and/or network with a way out of a difficult situation: the political decision of president Yeltsin to dismantle a large part of the Soviet secret services Volkov (2002a: 150–154).

Coming back to Birshtein's difficulties with the political elites in various post-Soviet countries, these exemplify the interdependency of business and politics in the post-Soviet world and give foundation to the widespread popular perceptions of the interrelation and sometimes equivalence of business and politics. These interrelations are often expressed through the public association of the 'oligarchs' with politicians in Russia and Ukraine, or through the image of the businessman that coincides with

that of the politician, as in Moldova or the ex-Soviet Central Asian states. This perceptual overlap is based on another widely held cultural perception that power and money are congruent. The source of these perceptions probably goes back further than what people were witnessing after the collapse of the Soviet regime. One such practice, as exemplified above, consists in the bureaucrats' use of their public offices to provide private businesses with monopoly positions or to divide up markets between certain individuals and businesses.

Humphrey (2004a), like Volkov (2000), argues that *patrimonialism*<sup>21</sup> is a historically grounded practice common in the pre-revolutionary Russian Empire. One can also observe the historical similarities between post-Soviet *patrimonialism* and the exclusive rights in terms of trade and industry awarded by Dutch and British absolutist monarchies to private entrepreneurs that gave rise to the capital accumulation of the 17<sup>th</sup> and 18<sup>th</sup> century.<sup>22</sup>

21) However, she argues that in the Post-Soviet context *patrimonialism* is not entirely accurate in describing the rapacity of the post-Soviet in preying on state assets and taking advantage of their position within the state bureaucracy; she believes this practice is better described by the term *bureaucratic appropriation* (Humphrey 2004a: 91).

22) I thank Michael Stewart for pointing this out to me.



This article serves to nuance the intentional behavior often attributed to the post-Soviet and post-socialist political elites by arguing that the changes introduced by market and democratic reforms left political elites with few choices as to how to run the political system without indulging themselves,

directly or through intermediaries, in capital accumulation. In this sense, the capitalist class that was formed with the collapse of the Soviet system can also be seen as indispensable to the political elites, which partially complied with the rules and procedures of electoral politics.

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