

**FROM SPIES TO OLIGARCHS:  
THE PARTY, THE STATE, THE SECRET POLICE  
AND  
PROPERTY TRANSFORMATIONS IN POSTCOMMUNIST EUROPE**

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In all communist states, a key power holder lurked in the shadows of the communist party: the secret police (State Security). What were the functions of the secret police prior to 1989? And what role did it play in the property transformations that took place in after the collapse of communism? The voluminous literature on communism and postcommunism has not examined these questions. In part, this inattention to the role of the secret police reflects the common wisdom that State Security served as the repressive machine of the communist state, but that it was dissolved after 1989, and would not therefore be a suitable object of inquiry for those studying postcommunist property transformations.<sup>1</sup> Another reason is the absence of data. To this day, the archives of the secret police in most Eastern European countries remain very tightly closed. For students of postcommunism, the analytical focus has been on the transformation of the party, the state, and the economic system.<sup>2</sup> This paper argues that shifting the lens to the secret police reveals the interconnectedness of the party, the state, and the economy both before *and* after the momentous changes of 1989. Tracing these remarkable communist and postcommunist continuities allows us to shed new light on the economic and political transformations that took place in Eastern Europe over the last two decades.

The literature on the post-1989 economic transformations produced a consensus view of the postcommunist state as weak or “captured” by the major financial-industrial groups.<sup>3</sup> This account is certainly plausible. In the 1990s, billionaires emerged overnight

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<sup>1</sup> See for example, Kieran Williams and Dennis Deletant, *Security Intelligence Services in New Democracies: The Czech Republic, Slovakia, and Romania* (Houndmills: Palgrave, 2001).

<sup>2</sup> For some outstanding examples of this literature, see Joel Hellman, “Winners Take All: The Politics of Partial Reform in Postcommunist Transitions,” *World Politics* 50:2 (January 1998), 203–234; Anna Grzymala-Busse, *Redeeming the Communist Past: The Regeneration of Communist Parties in East Central Europe* (New York: Cambridge University Press, 2002); and Timothy Frye, *Building States and Markets after Communism: The Perils of Polarized Democracy* (New York: Cambridge University Press, 2010).

<sup>3</sup> Joel Hellman, Geraint Jones, and Daniel Kaufmann, *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition*, World Bank Policy Research Paper no. 2444 (September 2000);

throughout Eastern Europe by privatizing the most valuable assets of the socialist state: natural resources, industrial enterprises, banks, and the media. This massive accumulation of wealth occurred at a time when postcommunist states were running huge budget deficits, struggled with hyperinflation, and defaulted on their foreign debt; this was also the time when ordinary citizens experienced drastic declines in their standards of living. The state seemed to be at the beck and call of the new oligarchs, who could buy not only state assets but laws and regulations as well. The state was all too eager to oblige the oligarchs, who operated in blatant disregard of property rights and resolved their conflicts through gun justice; law and order broke down and the number of contract killings and gratuitous violence increased dramatically. Terms like “state capture” and “praying on the state” seemed a fitting description of the postcommunist state, especially in comparison to its communist predecessor.

A focus on the secret police allows us to produce a very different account of the economic and political transformations that unfolded in postcommunist Europe. This paper argues that the great transfer of property from the state to private individuals started *before* 1989. Based on access to unique documents from the archives of the Bulgarian secret police, the paper shows that by the mid-1980s, the state was already providing capital to employees of the secret police to create firms both at home and abroad. 1989 did not interrupt this process in Bulgaria, but only sped it up. As the communist party won the founding elections in 1990, it could enjoy some additional time to complete the initial property redistribution from the state to private entrepreneurs. Because the party was aware that its time horizon was short, it hastily redistributed the rest of the most

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Venelin Ganey, *Preying on the State: The Transformation of Bulgaria after 1989* (Ithaca, NY: Cornell University Press, 2007).

desirable state assets to those whom it trusted: the employees of the secret police. This episode of property redistribution indicates that rather than being preyed on by businesspeople, the state willingly handed over its most prized assets to them. This empirical fact requires us to rethink state-business relations in postcommunist states. A state that creates a business class and transfers its assets to it is not preyed upon. Rather, it has entered into a symbiotic relationship with the new capitalists. This created a stable equilibrium. Neither the rotation of non-communist parties in government nor entry into the EU has been able to break the monopoly of former employees of the secret police (or relatives and business partners of such employees) over the most desirable assets of the former communist state. The durability of this symbiotic relationship between the former State Security employees, the former communist party, and the new democratic state has implications for our understanding of the nature of the transformations in postcommunist Europe.

Empirically, this paper is based on documents from the archives of the Bulgarian State Security (the Bulgarian secret police) as well as on the archives of the Bulgarian Communist Party; these documents allow us to trace the connections between the party, the state, and the secret police both before and after 1989. Although the theoretical argument of the paper is developed on the basis of the Bulgarian case, the model applies to other countries where the exit from communism was incomplete: the majority of the successor states of the Soviet Union, most of the successor states of Yugoslavia, as well as Romania, Albania, and Mongolia. In these countries, much as in Bulgaria, the communist party (or its successor) won the founding elections after 1989. Should archival documents comparable to the ones available for Bulgaria ever become accessible

in these countries, we may expect to find that the delayed exit from communism allowed similar processes of redistribution of state property to the secret police to continue without interruption in these countries as well.

The paper is organized as follows. Section I develops a theoretical argument about the party-state-secret police nexus both before and after 1989. Section II examines how the organization of the secret police prior to 1989 facilitated the transfer of state property into the hands of the secret police. Section III focuses on the remarkable prominence of the secret police in property redistribution after 1989. Section IV examines the applicability of the model to other postcommunist countries. Section V discusses how the countries that are still ruled by communist regimes may fit into the model. Section VI concludes. Before we proceed, let me mention that I use “secret police” interchangeably with “State Security.” We should also note that in communist countries, the State Security apparatus is typically located within the Ministry of the Interior, and that it combines the functions of both a CIA (external intelligence) and a FBI (domestic counterintelligence).

### **Section I: Theorizing the Party--State--Secret Police Nexus Before and After 1989**

The secret police was an important instrument of governance in communist states: it obeyed the orders of the communist party without questioning them. Initially, the secret police was designed as the repressive machine of the communist regime.<sup>4</sup> In the 1940s and 1950s, State Security served as the main executor of massive purges against “class enemies,” “foreign elements,” and “enemies with a party ID,” who were sent to the labor

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<sup>4</sup> Hannah Arendt, *The Origins of Totalitarianism* (New York: Harcourt, Brace, 1951), 398--399; Carl J. Friedrich and Zbigniew K. Brzezinski, *Totalitarian Dictatorship and Autocracy*, Second Edition (Cambridge, MA: Harvard University Press, 1965), 22, 161--182.

camps en masse.<sup>5</sup> In the 1960s, a decisive change occurred. The secret police abandoned the use of large-scale repression and adopted surveillance as its preferred method of operation.<sup>6</sup> Surveillance focused on extensive data gathering and infrequent punishment of individuals.<sup>7</sup> All of the key branches of the secret police actively participated in information gathering: foreign intelligence; domestic counterintelligence; military counterintelligence; economic counterintelligence; and the political police (which gathered information both on political dissidents and on corruption among the top echelon of the party). Although the communist party had its own internal channels for gathering information, they could not match the breadth and the depth of the information obtained by the secret police.<sup>8</sup> Gradually, the party came to rely on the secret police as

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<sup>5</sup> On the labor camps, generally see Tzvetan Todorov, *Au nom du peuple: Témoignages sur les camps communistes* (In the Name of the People: Testimonies of the Communist Labor Camps) (La Tour d'Aigues: Éditions de l'Aube, 1992); Ekaterina Boncheva, Edvin Sugarev, Svilen Putov, Zhan Solomon, eds., *Bulgararskiiat Gulag: Svideteli (sbornik ot dokumentalni razkazi za kontslagerite v Bulgariia)* (The Bulgarian Gulag: Witnesses [Collection of Testimonies of the Concentration Camps in Bulgaria]) (Sofia: Vestnik "Demokratsiia", 1991); Khristo Khristov, *Sekretnoto delo za lagerite* (The Secret Case About the Camps) (Sofia: Ivan Vazov, 1999); and Stefan Bochev, *Belene: Skazanie za kontslagerina Bulgariia* (Belene: A Tale of Concentration-Camp Bulgaria) (Sofia: Fondatsiia "Bulgarska nauka i izkustvo", 2003). For statistical data, see Penka Stoianova and Emil Iliev, *Politicheski opasni litsa: Vudvoriavaniia, trudova mobilizatsiia, izselvaniia v Bulgariia sled 1944 g.* (Politically Dangerous Individuals: Internments, Labor Mobilization, and Internal Deportations in Bulgaria after 1944) (Sofia: Universitetsko izdatelstvo "Sv. Kliment Okhridski," 1991).

<sup>6</sup> Gary Bruce, "The Prelude to Nationwide Surveillance in East Germany: Stasi Operations and Threat Perceptions, 1945--1953," *Journal of Cold War Studies*, 5:2 (Spring 2003), 3--31; Alexander Dallin and George W. Breslauer, *Political Terror in Communist Systems* (Stanford: Stanford University Press, 1970); Jonathan R. Adelman, ed., *Terror and Communist Politics: The Role of the Secret Police in Communist States* (Boulder, CO: Westview Press, 1984).

<sup>7</sup> For example, a top-secret report of the activity of the Sixth Directorate (political police) of State Security indicates that in 1972--1975, the Sixth Directorate worked on 4,000 leads of enemy activity (typically, attempts to flee the country), but these leads resulted in the sentencing of only 76 people, the internment of another 57, and the entry of 274 people in the "operational reporting" system (individuals of this type would be watched for future, potentially more serious, violations) (see AMVR, f. 22 op. 1 a. e. 22, *Report Regarding the Work of the Sixth Directorate and the Assessments and Instructions Given by the Leadership of the Ministry of the Interior* [1975], p. 8). Whereas repression did not disappear, remarkably the majority of the people engaging in enemy activity received warnings and reprimands, rather than prison sentences. This is consistent with the information-gathering function of the secret police: it was interested mostly in anticipating, preventing, and above all, monitoring, activity, rather than in heavy-handed repression.

<sup>8</sup> The Communist party relied on so-called "Information-Sociological Institutes" of the Central Committee to monitor anti-regime rumors and jokes, to conduct opinion polls, and to analyze letters to the press, the party, and the government (see Martin Dimitrov, *Popular Accountability and Autocratic Resilience in Communist Europe and China*, Ch. 3). In contrast to the work of the *Zentralinstitut für Jugendforschung* in

the main source of important information, which was then used for making governance decisions.<sup>9</sup>

Apart from gathering information, the secret police was also called upon to assist the communist party in improving the state of the economy. Prior to 1989, the secret police developed three special branches that engaged in economic activities: foreign economic espionage; a smuggling division; and domestic economic counterintelligence. These branches were responsible for improving the economic wellbeing of the country by stealing foreign trade secrets and by bringing in much-needed hard currency through the smuggling of arms, cigarettes, and narcotics abroad. To conduct these operations, the secret police set up (with the approval of the communist party) a series of import-export firms at home, as well as overseas trading companies located mostly in Western Europe. The secret police developed a cadre of employees who had experience both with foreign trade and with operating in free market economies. When 1989 arrived, the secret police found itself with two indispensable assets: information and experience.

A decisive change occurred on 10 November 1989, when Todor Zhivkov, an incumbent with thirty-five years of experience as the head of the party and state, was forced to step down in a bloodless palace coup. Several years prior to this change, two parallel processes were underway: preparations for a political transition and preparations for the creation of new capitalist entrepreneurs. The two processes were led by the same

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Leipzig, the activities of the Information-Sociological Institutes of the Central Committee have not been subject to scholarly attention so far (on the *ZFJ*, see Walter Friedrich, Peter Förster, and Kurt Starke, eds., *Das Zentralinstitut für Jugendforschung Leipzig 1966--1990: Geschichte, Methoden, Erkenntnisse* [Central Institute for Youth Research in Leipzig 1966--1990: History, Methods, Findings] [Berlin: Edition Ost, 1999]; see also Kuran 1991 and Lohmann 1994 who cite *youth* opinion polls from the *ZFJ*).

<sup>9</sup> The secret police produced daily, weekly, monthly, quarterly, and yearly reports on political, economic, and social development problems. For a select number of such documents from the Soviet Union, see the Fond 89 Communist Party of the Soviet Union on Trial (microfilm held at the Hoover and at Harvard). For such documents from Bulgaria, see the Archive of the Ministry of the Interior (AMVR). For documents from the GDR, see SAPMO-BArch.

man: Andrei Lukanov, candidate-member of the Politburo, leading member of the Hard Currency Commission of the communist party, and Minister of Foreign Trade. Lukanov had received his degrees at the prestigious International Relations Institute in Moscow (MGIMO) and had close ties to the top Soviet leadership, to the Soviet ambassador in Sofia, and to the Soviet KGB representative at the Bulgarian State Security. With the help of other “reformers” within the Politburo, Lukanov engineered the November 1989 coup. But more important was his role in the economic transformation that had begun prior to 1989. Lukanov sped up the process of creation of State Security firms abroad. He was also instrumental in the passage of Decree 56 in January 1989, which legalized private economic activity and allowed individuals to form private firms.<sup>10</sup> This decree allowed for the privatization of state assets even before the change in leadership in November 1989. A careful analysis of the large firms that arose prior to November 1989 indicates that they were either overseas State Security firms that were being privatized, or else domestic Bulgarian firms that were created with state capital channeled to individuals with State Security connections.

November 1989 signaled a change in leadership in Bulgaria: after Zhivkov’s ouster, Lukanov and his MGIMO classmate Mladenov took over control of the government and the party. The communist party was still in power, but with a new cast of “reformist” characters in place. The next six months were a period of intense political change, when the first free and fair elections were organized and held in June 1990. The Bulgarian Socialist Party (BSP), the successor of the Bulgarian Communist Party, won the elections and was able to form a new cabinet under the leadership of Lukanov. This gave the communist party a window of opportunity during which the process of

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<sup>10</sup> “Ukaz 56 za stopanskata deinost,” *Rabotnichesko delo*, January 11, 1989.



redistribution of state assets could continue at an accelerated pace. Two developments of the early 1990s should be noted. One was the privatization of the State Security channels for state-sponsored contraband of arms, synthetic drugs, and cigarettes. The second was the continued privatization of State Security firms both abroad and in Bulgaria.

These property transformation processes could not have unfolded without the active participation of party and state agents. The party was shedding its assets -- money (accumulated through membership fees and state subsidies), buildings, and qualified full-time staff -- and transferring them into business. The state banks were hemorrhaging cash that was loaned to “entrepreneurs” with the proper connections. State Security and its successor services aided the process. First, they provided some of the manpower for this new business by dissolving the political police division of State Security and by allowing foreign intelligence, domestic counterintelligence, military counterintelligence, economic counterespionage, and technical services personnel working undercover in various firms affiliated with or monitored by State Security to quit their jobs and to go into business. Second, State Security actively encouraged patently illegal activity, such as the using of its pre-1989 contraband channels for arms exports to the Third World and the smuggling of oil to Yugoslavia during the UN embargo in the 1990s. State Security and the Interior Ministry also failed to prosecute a number of criminal groups that specialized in car theft, illegal currency exchange, gambling, prostitution, and various forms of extortion and racketeering. The reason is that former employees and informers of State Security (or of the Interior Ministry, where State Security was headquartered) were actively involved in these gangs. Their friends on the inside protected them. In the murky world of the early 1990s, two groups of new “businessmen” emerged. One was composed of relatively well-

educated individuals who actively led the privatization process. The other was composed of criminal gangs. What was common to both groups was their links to State Security.

Despite an eleven-month interregnum in 1991--1992, when opposition forces controlled the government, this process of property transformation continued without interruption until 1997, when the socialist (ex-communist) party had to definitively abandon power. New oligarchs emerged in 1997--2005 under non-socialist governments, but these oligarchs had often been business partners with the oligarchs that had come into being prior to 1997. More importantly, both the old and the new oligarchs had links with State Security. In 2005--2009, the socialists (ex-communists) formed another government, which also promoted oligarchs with ties to State Security. As of July 2009, Bulgaria has a new non-socialist cabinet headed by Boiko Borisov, an ex-fireman and karate wrestler, who made his career in the Interior Ministry prior to 1989, then entered private business (working as a bodyguard, but in partnership with individuals who led extortion and racketeering businesses), then re-entered the Ministry of the Interior, and finally became mayor of Sofia. Borisov's domestic partner is Tsvetelina Borislavova, the richest woman in Bulgaria, who prior to 1989 worked in a firm affiliated with State Security. Thus, the one constant in Bulgarian politics after 1989 seems to be that no matter whether the ex-communist party or the opposition is in power, individuals with links to State Security have been spectacularly successful at amassing and maintaining wealth. This attests to the successful redistribution of property rights in the late 1980s-early 1990s and to the persistence of party-state-secret police networks.

The Bulgarian case has several theoretical implications for our understanding of the process of property transformation after 1989. First, it allows us to address the debate

whether membership in the communist party or education are stronger predictors of successful entrepreneurship.<sup>11</sup> When we examine the list of the most successful entrepreneurs in Bulgaria (see Appendix Table 1), it is evident that membership in the party was instrumental to their advancement after 1989. Virtually all oligarchs were members of the communist party or of the communist youth league (Comsomol) prior to 1989. However, not a single one was a member of the top party *nomenklatura* or descended from a top *nomenklatura* family. Similarly, education matters: most successful oligarchs had a college degree. Nevertheless, these degrees were often in fields not conventionally known for producing successful businesspeople, such as criminology, sports, or agricultural science. Importantly, billionaire Iliia Pavlov, the most successful businessperson of the 1990s, had no college degree: he had only gone to a sports highschool where he specialized in wrestling. Rather than membership in the party or educational attainment, the strongest predictor of entrepreneurial success was a documented relationship with the State Security apparatus. Of the twenty-three Bulgarian oligarchs whose life histories are presented in Appendix Table 1, at least twenty were either State Security employees or were linked to the system through family ties or business partnerships. Iliia Pavlov, for example, was married to the daughter of General Chergilanov, the Head of the Military Counterintelligence Directorate within State Security. Thus, although both membership in the party and education were important for entrepreneurial success, links to the State Security apparatus were the most fruitful.

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<sup>11</sup> Victor Nee, "A Theory of Market Transition: From Redistribution to Markets in State Socialism," *American Sociological Review* 54 (October 1989), 663--681; Gil Eyal, Ivan Szelenyi, and Eleanor Townsley, *Making Capitalism without Capitalists: Class Formation and Elite Struggles in Post-Communist Central Europe* (New York: Verso, 1998); David Stark and László Bruszt, *Postsocialist Pathways: Transforming Politics and Property in East Central Europe* (New York: Cambridge University Press, 1998); Catalin Augustin Stoica, "From Good Communists to Even Better Capitalists? Entrepreneurial Pathways in Post-Socialist Romania," *East European Politics and Societies* 18:2 (2004), 236--277.

Second, this research on State Security allows us to examine the role of the state after the collapse of communism. Was the postcommunist state “captured” by powerful business groups in the 1990s and 2000s? The answer depends on whether we take into account the role of the state in creating these powerful business groups in the first place. The persistence of state-created business groups and oligarchs after 1989 *regardless* of government type (ex-communist or opposition) is one of the most intriguing characteristics of postcommunist politics in Bulgaria. This persistence could not have occurred without two conditions. First, although it changed its name and abandoned some of its functions, the State Security apparatus (much like the communist party) survived 1989 and retained most of its pre-1989 personnel. The new entrepreneurs could rely on their connections with State Security employees (their former colleagues) both for information and protection from prosecution for illegal activity. Second, every post-1989 government in Bulgaria has had at least one minister who was either a former or current State Security employee, or else has been exposed as a State Security informer. These ministers with State Security links also protected their former colleagues or, in the case of civil servants who used to be informers, their “leading officers.” The judiciary and the legislature were also thoroughly infiltrated by State Security employees and informers throughout the 1989--2009 period. Thus, the entire government apparatus in postcommunist Bulgaria was geared towards enabling businesspeople with State Security connections to prosper. The state initially created these businesspeople and then made it possible for them to continue to amass vast fortunes, a portion of which was returned to state agents in the form of bribes. This was a stable equilibrium that has persisted for the last two decades. Rather than “state capture,” this situation can be described as a mutually

beneficial exchange between the state and state-created businesspeople with a State Security background.

Third, an integration of State Security as an explanatory variable in theories of postcommunist property rights transformations can help shed light on the question whether lustration is a necessary element for successful transition to a liberal democracy.<sup>12</sup> Lustration has typically been understood as limiting the ability of party cadres to assume political office after 1989. However, what has not received extensive attention is whether former State Security employees and informers should be allowed to assume political office. One of the remaining puzzles of the postcommunist reform experience is whether incomplete lustration can explain the persistence and intensification of corruption even in countries that are classified as liberal democracies and have acceded to the EU. The Bulgarian case suggests that the absence of lustration contributes to the concatenation of party-state-state security networks of mutually beneficial exchange that persist despite political liberalization. Even under liberal democracy, state-created oligarchs have a sufficient number of allies in positions of power who can protect their ill-gotten wealth. It is the persistence of such non-transparent practices that can threaten the future of liberal democracy in postcommunist states. In short, a focus on the continuities of party-state-State Security networks can illuminate political dynamics both before and after 1989.

Finally, and at a more general level, a focus on the secret police sheds some light on the difficult question of establishing the rule of law in postcommunist states. Some commentators had expressed optimism that EU accession would improve the quality of

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<sup>12</sup> Monika Nalepa, *Skeletons in the Closet: Transitional Justice in Post-Communist Europe* (New York: Cambridge University Press, 2010).

the judicial system of postcommunist countries. As this paper demonstrates the prevalence of corruption, crime, and criminality are directly linked to the persistence of State Security networks after the collapse of communism.

## **Section II: State Security as a Laboratory for Capitalism in Bulgaria Before 1989**

It is somewhat paradoxical that State Security, which was designed to serve as the repressive arm of the communist state, would over time become a laboratory for capitalist experimentation. But records from the State Security Archive (AMVR) and the Central Party Archive (TsDA) indicate that in the 1960s State Security was called upon to help the communist state overcome two severe problems: technological backwardness and the shortage of hard currency. State Security mobilized its full-time staff and its extensive network of agents and informers to help the communist state address the economic problems it was experiencing. The full-time staff of State Security consisted of “undercover officers” working in various ministries and firms of strategic importance and “leading officers” who worked for State Security itself and had the chief task of processing information obtained through a network of agents and informers recruited both at home and abroad from various social and occupational groups based on their access to information that State Security deemed valuable.<sup>13</sup> By the 1980s, there were

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<sup>13</sup> On average, each leading officer recruited, trained, and managed 10--12 agents and informers at any given point in time. Agents provided information on a regular basis and were often entrusted with the execution of specific tasks by State Security. Informers typically only provided information on an irregular basis. Bulgaria Interview 080624 with Dimitur Ivanov, former chief of the Sixth Department of the Sixth Directorate of State Security (Sofia).

about 1,000 full-time staff within State Security working on monitoring the economy for the government.<sup>14</sup>

Several departments within State Security were specifically entrusted with monitoring the economy. One was the Directorate of Scientific-Technical Intelligence, which was located within the Chief Directorate of External Intelligence.<sup>15</sup> At its peak, this Directorate had 326 employees, most of whom worked undercover as diplomats or trade representatives abroad.<sup>16</sup> The Directorate was entrusted primarily with circumventing the COCOM restrictions and acquiring trade secrets, usually by conducting industrial espionage or by negotiating technology-transfer agreements with firms that were willing to violate COCOM restrictions. Intelligence officers and agents targeted for acquisition both high-technology know-how (for example, computer IC layout schemes and compact disk manufacture processes) as well as trade secrets associated with the production of mundane household necessities, such as dishwashing liquid.<sup>17</sup> To acquire these technologies, the Directorate established hundreds of Bulgarian-invested import-export firms abroad; these firms often had a pro-forma foreign owner or masqueraded as Bulgarian-foreign joint ventures, but were in fact fully owned by State Security. The employees of these firms acquired skills in operating in a market economy decades before the collapse of communism.

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<sup>14</sup> Calculation based on archival sources from State Security (AMVR).

<sup>15</sup> TsDA f. 1B op. 64 a. e. 313, July 9, 1963 Politburo decision on the operation of the Intelligence Directorate. This directorate was patterned after the KGB Directorate T, which also focused on scientific-technical intelligence.

<sup>16</sup> TsDA f. 1B op. 64 a. e. 891, July 21, 1988 Politburo decision on the personnel of the Intelligence Directorate.

<sup>17</sup> Ognian Doinov, *Spomeni* (Memoirs) (Sofia: Trud, 2002).

A second entity within State Security that handled economic matters was the Economic Directorate.<sup>18</sup> As of 1986, the Economic Directorate had a total of 236 employees spread across eight departments that maintained total control of all major economic actors in the country. Two departments monitored the superministerial committees and line ministries. A trade department directed Bulgarian firms that specialized in weapons smuggling and the production of amphetamines. A transport department covered all means of transportation. Another department supervised the protection of state secrets. An analytical department compiled detailed information on the state of the economy. An “active measures” department engaged in economic counterespionage. Finally, a military counterintelligence department focused on the specialized troops of the Ministry of Transportation.<sup>19</sup> The Economic Directorate worked in close collaboration with the Border Control Department of the Chief Directorate of Counterintelligence. Border control was numerically larger than the Economic Directorate, employing 361 full-time State Security staff.<sup>20</sup> Although the Economic Directorate had a mandate that encompassed the whole economy, in practice it concentrated on enabling the smuggling of Bulgarian-produced weapons, amphetamines (especially Kaptagon, an Ecstasy-like drug), and counterfeit cigarettes and liquor. This allows us to understand why the Directorate prioritized control over transportation networks and worked in close collaboration with Border Control. State Security had become an enabler of massive state-supported smuggling operations. It is not clear how

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<sup>18</sup> Other communist countries had similar departments in their State Security systems. In the GDR, the corresponding entities were Eighteenth Chief Directorate of Stasi (*Hauptabteilung XVIII Sicherung der Volkswirtschaft*) along with the Working Group on Trade Coordination (*Arbeitsgruppe Bereich Kommerzielle Koordinierung*). See Maria Haendcke-Hoppe-Arndt, *Die Hauptabteilung XVIII Volkswirtschaft* (Berlin: Der Bundesbeauftragte des Staatssicherheitsdienstes der ehemaligen Deutschen Demokratischen Republik, Abt. Bildung und Forschung, 1995).

<sup>19</sup> AMVR, f. 10 op. 6 a. e. 542, *Personnel of the Fourth Directorate of State Security*.

<sup>20</sup> AMVR, f. 10 op. 6 a. e. 520, *Personnel of the Second Chief Directorate of State Security*.



much hard currency these smuggling operations brought to the treasury, but they persisted ever since they were first begun in the early 1960, when the Texim Corporation managed to break the French naval blockade and to supply the Algerian FLN rebels with Bulgarian-produced arms and ammunition.<sup>21</sup> Importantly, much like the scientific-technical intelligence firms, the firms that engaged in smuggling functioned according to market principles of supply and demand, and were motivated by the need to turn up a profit.

One example of how spectacularly successful these firms could be is provided by the history of Texim, an import-export corporation. Created through a secret cabinet decision in December 1960, Texim was headed by Georgi Naidenov, an intelligence officer at State Security. Shortly after its establishment, Texim registered a foreign subsidiary -- Imextracom, headquartered in Liechtenstein (a location attractive because of its lax regulations on business incorporation). Texim was given a free hand by the government: as long as it delivered hard currency to the budget, it could engage in any type of business activity, anywhere in the world. It quickly had impressive results to show. Though Texim started with weapons smuggling, it rapidly expanded into cargo and passenger transportation (it owned shipping trucks, ships, and planes), agricultural production, consumer goods trade, tourism, and the production of pharmaceuticals. By 1967, Texim had an annual turnover of over US \$100 million, a very respectable sum for the scale of the Bulgarian economy at the time. Other firms created in the 1970s and

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<sup>21</sup> Dimitur Filipov, *Spomeni za Georgi Naidenov -- Geto, chovekut, koito izprevari svoeto vreme* (Sofia: Universitetsko izdatelstvo, 2004).

1980s capitalized on the Texim model, specializing primarily in the trade of weapons and pharmaceuticals, but also developing other high-profit subsidiary businesses.<sup>22</sup>

In the second half of the 1980s, Bulgaria found itself with an array of firms created or managed by State Security: overseas firms tasked with acquiring foreign technology; overseas firms tasked with selling Bulgarian industrial production in hard-currency markets; firms and banks in Bulgaria that specialized in “special production,” which consisted primarily of arms, ammunition, and amphetamines; and firms abroad that specialized in selling this “special production” for hard currency. Apart from the firms themselves, the channels that were used to smuggle arms and narcotics out of the country were a valuable resource in their own right. A smuggling channel consisted of specially trained State Security staff who would let certain types of vehicles pass through designated Customs points.<sup>23</sup> The potential profits both for the smugglers and for those enabling the smuggling were vast, which explains why these channels were viewed as a desirable asset during the privatization spree that occurred after 1989.

In working in these kinds of businesses, State Security employees had acquired knowledge of the true state of the Bulgarian economy, as well as practical skills for operating in the free market that were unmatched by employees in other sectors of the economy in Bulgaria, which were ruled through the plan. When in January 1989 the government decreed that private individuals could engage in business both in and outside of the country, nobody was better positioned to make use of this new opportunity than State Security employees. They had both the necessary knowledge and experience in navigating the market economy. Not surprisingly, employees of State Security founded

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<sup>22</sup> Firms like Kintex and Teraton are the most prominent examples from the 1970s and 1980s.

<sup>23</sup> Iovo Nikolov, “Destvoto na kontrabandnite kanali e skrito v MVR,” *Capital* 30 (August 2, 2003).

the first private company in Bulgaria exactly one week after Decree 56 was promulgated in January 1989. Throughout 1989, up to 90 percent of the newly registered companies had a State Security connection.<sup>24</sup>

In the second half the 1980s, a process of capital flight was rapidly taking place under the guidance of Andrei Lukanov, the “reformer” within the Bulgarian Politburo who engineered the eventual ouster of Zhivkov in November 1989. In 1986, Lukanov became a leading member of the Hard Currency Commission of the Bulgarian Communist Party. This commission, which was headed by Zhivkov until that point, oversaw all currency transactions in the country, including borrowing from foreign banks and the spending of large sums of foreign currency. When Zhivkov chaired the commission, Bulgaria had virtually no foreign debt. Under Lukanov, the country managed to accumulate \$9 billion of foreign debt in four years.<sup>25</sup> In part, this vast sum (equivalent to one full year of Bulgarian GDP) could be explained by the diminishing Soviet supplies of natural resources, which forced the Bulgarian government to purchase some of these resources on the world market. In addition, part of the debt was accumulated through the indiscriminate purchase of second-hand turnkey Western factories and importing them into Bulgaria with the aim of boosting industrial productivity.<sup>26</sup> But a significant amount of debt was accumulated through capital flight. Although sources differ on how much money was sent to the overseas firms connected

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<sup>24</sup> Misha Glenny, *McMafia: A Journey Through the Global Criminal Underworld* (New York: Alfred A. Knopf, 2008), 7--8.

<sup>25</sup> Ministry of the Interior, *Informatsiia otnosno niakoi osnovni problemi na ikonomicheskoto razvitie na stranata i tiakhnoto otrazhenie vurkhu durzhavniia biudzhet (strogo sekretno)* (Top Secret Information Regarding Some Basic Problems of the Economic Development of the Country and Their Impact on the State Budget) (1989), TsDA f. 1b op. 100 a. e. 76, 8--9.

<sup>26</sup> Khristi Khristov, *Tainite faliti na komunizma* (The Secret Bankruptcies of Communism) (Sofia: Ciela, 2007), 125--153.

with State Security, a conservative estimate would be \$2 billion.<sup>27</sup> At the time, there were some 450 Bulgarian firms in 70 different countries around the world, all of them with links to State Security.<sup>28</sup> Furthermore, State Security had established a number of Bulgarian banks overseas. Because the central bank in Sofia did not monitor these firms and banks,<sup>29</sup> they were used to channel capital back to these new entrepreneurs. In standard “roundtripping” fashion, this money would then be used to finance the business ventures of the newly created domestic firms in Bulgaria.

When Zhivkov was ousted in 1989, State Security businessmen were well positioned to benefit from the changes. Apart from “roundtripping FDI,” they had access to domestic capital: according to testimonials from Central Committee member Georgi Pankov, “red suitcases” full of cash that were given to trusted comrades so that they could start private business.<sup>30</sup> Thus, the process of property redistribution had started even before the collapse of communism. Democratization would only accelerate it.

### **Section III: Property Redistribution in Bulgaria After 1989**

Though Zhivkov was forced to step down in November 1989, the communist party nevertheless retained full monopoly on power for another year, which allowed it to

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<sup>27</sup> See Khristo Khristov, *Imperiata na zadgranichnite firmi: Suzdavane, deinost i iztochvane na druzhestvata s bulgarsko uchastie zad granitsa 1961--2007 g.* (The Overseas Firms Empire: Creation, Activity, and Hollowing Out of Bulgarian Overseas Firms, 1961--2007) (Sofia: Ciela, 2009); Glenny, *McMafia*, 12; for higher estimates, see Dimiter Kenarov, “Chronicle of a Death Foretold: Georgi Stoev’s Gangster Pulp,” *The Nation*, April 29, 2009.

<sup>28</sup> Khristov, *Imperiata na zadgranichnite firmi*.

<sup>29</sup> *Kratuk analiz na finansovo-bankovite problemi na ikonomikata na bazata na otcheta na Bulgarska narodna banka za 1988 g.* (Brief Analysis of the Financial and Banking Problems of the Economy on the Basis of the 1988 Annual Report of the Bulgarian National Bank), September 25, 1989, TsDA f. 1b op. 100 a. e. 119, 9--10.

<sup>30</sup> Pankov interview in Plamen Petkov’s documentary *Podmianata 10-i* (The Replacement on the 10<sup>th</sup>), November 10, 2004, BTV.

complete successfully the process of initial property redistribution. After losing power to the opposition in 1991, the communists still ruled either as members of coalition governments (end of 1992--1994) or single-handedly (1995--1997). In the 1990s, three models of postcommunist entrepreneurs emerged. All three included businessmen with links to State Security. (For life histories, see Appendix Table 1).

The first model involved individuals who accumulated business experience prior to 1989, typically through employment for State Security. The personification of this model is Iliia Pavlov. A wrestler who graduated from the sports highschool “Olympic Hopes,” Pavlov was put in charge of one of the first private firms in Bulgaria, Multiart. Although Multiart was supposed to engage in the import-export trade of antiques and other art objects, as early as 1989 Pavlov was buying submarines from the Soviet Black Sea fleet and selling them as scrap metal in the West. Such wide latitude of operations while Zhivkov was still in power would not have been possible without the support of State Security (Pavlov was the son-in-law of the head of Military Counterintelligence). Pavlov’s business ventures grew exponentially after November 1989, when he set up Multigroup Corporation as the Bulgarian subsidiary of a Swiss company owned by a holding company incorporated in Liechtenstein (recall that Texim, the most successful pre-1989 State Security corporation, was also incorporated in Liechtenstein).<sup>31</sup> Today, it is beyond doubt that the initial capital of Multigroup Bulgaria originated in Bulgaria, but “roundtripped” through Liechtenstein and Switzerland before returning to Bulgaria as foreign direct investment. Once given the start-up capital, Pavlov developed a business mega-empire, becoming the only Bulgarian to be included in *Wprost*’s list of East

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<sup>31</sup> Ganev, *Preying on the State*, 100--104.

European billionaires in 2002.<sup>32</sup> A year later, he was shot dead in a contract killing that remains unsolved. Another individual who exemplifies this type of businessman is Emil Kiulev, a State Security employee who transformed himself into the most successful post-1989 banker, and who was shot dead in 2005. Vasil Bozhkov (“the Skull”), a close associate of Pavlov and Kiulev, has so far avoided a contract killing, and currently enjoys the status of Bulgaria’s richest man.

The second model of postcommunist entrepreneurship involved ex-convicts and ex-sportsmen who established organized crime groups that engaged in extortion, car theft, drug peddling, and smuggling. On occasion, these groups would also carry out contract killings. This model is exemplified by individuals like Ivo Karamanski (“the Godfather”), the brothers Vasil and Georgi Ilievi, Mladen Mihkalev (Madzho), Ivan Todorov (“the Doctor”), and by the Margini brothers.<sup>33</sup> All of these individuals had some type of sports background: rowing, swimming, and most frequently, wrestling; some of them had been imprisoned prior to 1989 on charges of theft or violent crime. The amnesty of 1990 and the declining state funding for sports created a cadre of idle men with muscles and an inclination to engage in illegal activity. These men would then quickly set up “protection businesses” or “insurance companies” that would extort money from ordinary citizens and businessmen. These extortion businesses moved to assert control over gambling, prostitution, and the drug trade. Former and current State Security employees provided advice, guidance, and sometimes, physical assistance to these

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<sup>32</sup> “Najbogatsi Europejczycy Europy Środkowej i Wschodniej (edycja 2002 r.),” *Wprost*, <http://najbogatsieuropejczycy.wprost.pl/ranking/ide,13/edycja-2002.html> (accessed October 23, 2009).

<sup>33</sup> Kristi Petrova, *Voinata na grupirovkite* (2007); *Zhivei burzo* (2007); Dimitur Zlatkov, *BG Oligarsi 1: Tainite na nai-bogatite bulgari* (Bulgarian Oligarchs 1: The Secrets of the Richest Bulgarians) (Sofia: New Media Group, 2007); Dimitur Zlatkov, *BG Oligarsi 2: Nedosegaemite bulgari* (Bulgarian Oligarchs 2: The Unreachable Bulgarians) (Sofia: New Media Group, 2008).

“businessmen.” Importantly, when they got into trouble, the muscled men would hire former State Security prosecutors as their lawyers.<sup>34</sup> Thus, the second model of postcommunist businessman, much like the first, would not have been possible without the active support of the state.

An exogenous event -- the war in Yugoslavia -- greatly facilitated the success of both the first and the second group of businessmen. In 1991, the UN imposed both an arms embargo and an oil embargo against Yugoslavia. Bulgaria, due to its shared border with Serbia, was in a perfect position to break the UN embargo by smuggling arms and oil, both of which were in high demand in Yugoslavia. The smuggling was arranged by the first group of businessmen (most notably by Multigroup), who relied on their links with counterintelligence and border control officers at the National Security Service (one of the successor agencies of State Security) to ensure safe passage of their smuggled cargo through the border with Serbia. As these were dangerous times both in Bulgaria and in Yugoslavia, Multigroup needed protection for its oil cisterns and truckloads of arms. It was the second group of businessmen who supplied this protection.<sup>35</sup> The partnership was highly successful, but it was also dangerous: a higher number of businessmen from the second group died as a result of contract killings than from the first. However, those who survived managed to transform themselves from thugs into

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<sup>34</sup> Iovo Nikolov, “‘Taka kakto gushterut kusa opashkata si...’: Genezisut na organiziranata prestupnost,” *Capital* 42 (October 23, 2009), <http://www.capital.bg/show.php?storyid=804369> (accessed October 23, 2009).

<sup>35</sup> The business partnership was so close that sometimes businessmen from the first group would literally adopt businessmen from the second. Let us take as an example Fatik, the son of Isbet Saban, the individual who supervised smuggling operations for State Security prior to 1989. After 1989 Fatik specialized in car theft and violent extortion, but he was recruited to capitalize on his father’s experience and assist Multigroup in smuggling operations. Eventually Pavel Naidenov, the father of Iliia Pavlov, adopted Fatik as a sign of gratitude for his help to Multigroup.

“well-dressed businessmen.”<sup>36</sup> The career of Mladen Mikhalev-Madzho, one of the leaders of the SIC “insurance” company, provides the prime example of the metamorphoses of such businessmen. A former wrestler, Madzho assisted Multigroup with smuggling during the Yugoslav embargo,<sup>37</sup> but then developed his own business and expanded into oil, banking, and more legitimate types of insurance. Much like other successful oligarchs throughout the Eastern Bloc, Madzho also owns a successful soccer club. Importantly, Madzho received guidance and assistance from General Liuben Gotsev, a top ranking foreign intelligence officer at State Security, and briefly, foreign minister after 1989.<sup>38</sup> Though he currently lives in Switzerland (as he fears a contract killing), Madzho remains the most successful living exemplar of the second kind of post-1989 Bulgarian businessmen.

The third model involved highly educated, young, and dynamic businessmen with “clean” backgrounds. Typically, they had no business experience prior to 1989, as they were still in college at the time. They studied foreign trade in Bulgaria or international relations at MGIMO in the Soviet Union. Both the study of foreign trade and admission to MGIMO were off limits to the typical Bulgarian student, as they required the approval of the Central Committee of the communist party. After 1989, these well-trained individuals made their millions by establishing companies specializing in finance, natural resources, energy generation, and publishing. What is common to all of them is that it is unclear how they got the initial capital to start their highly successful businesses.

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<sup>36</sup> This phrase is attributed to Boiko Borisov, current Premier of Bulgaria. Iovo Nikolov, “MVR: Kloakata na prekhoda,” *Capital* no. 14 (April 4, 2008), <http://www.capital.bg/show.php?storyid=481005> (accessed October 25, 2009).

<sup>37</sup> Nikolov, “Taka kakto gushterut kusa opashkata si...”

<sup>38</sup> This argument has been attributed to Goergi Stoev, a thug who then became a pulp-fiction writer. Stoev was shot down in an unsolved contract killing in April 2008. See Dimiter Kenarov, “Chronicle of a Death Foretold.”



However, as all of them had links to State Security or to Zhivkov himself through their families, one suspects that the long hand of the party-state may have provided these individuals not only with admission to the coveted major of foreign trade but also with the initial capital to start their business. Some of these individuals have been implicated in massive corruption scandals (the former finance minister Milen Velchev) though others have managed to keep their reputations relatively clean (as in the case of media tycoon Ivo Prokopiev or the natural resource magnate Valentin Zlatev). Importantly, though business partners of these oligarchs have been kidnapped and even shot down in contract killings, the oligarchs themselves have adeptly managed to stay alive. The career trajectories of these oligarchs are suggestive of the rise of a new type of business entrepreneur: well-educated, fluent in foreign languages, with indirect links to State Security and the top echelon of the party, unwilling to settle business problems through contract killings, and engaging only in highly sophisticated types of fraud. Although it is doubtful whether these individuals would have risen to prominence without links to State Security, they are more civilized than the oligarchs of the early 1990s, who used brute force to expand their business empires.

Why have oligarchs with ties to State Security thrived in Bulgaria? This question is especially pertinent in 2009, when Bulgaria has been declared a liberal democracy and had entered the EU. The answer lies in the thorough infiltration of all political institutions by employees and agents of State Security. Statistical indicators help highlight the magnitude of the problem. To begin with, 7.7 percent of the National Assembly deputies

in the period 1990--2009 were either employees or agents of State Security.<sup>39</sup> Judges at every level were also coopted by State Security; even Constitutional Court justices served as State Security informers.<sup>40</sup> The secret police also had a heavy presence in the executive: Zhan Videnov, premier in 1995--1997, was an informer of State Security, as were over a hundred cabinet ministers and vice ministers serving between 1990 and 2007.<sup>41</sup> Similarly, State Security had representatives in the Presidency: the incumbent President of Bulgaria Georgi Purvanov is a documented informer of State Security, as are at least one vice-president and 22 individual who served as presidential advisers in 1990--2009.<sup>42</sup> When it comes to the “fourth power,” virtually every influential journalist in the post-1989 period has been exposed as a State Security employee or informer prior to 1989.<sup>43</sup> State Security had also infiltrated the central bank.<sup>44</sup> What these statistics suggest is that far from exiting power, a network of secret police employees and informers remained in key positions in all branches of power. In addition, although the political police (Sixth Directorate of State Security) was dissolved after 1989, all other branches continued to exist with largely the same staff and the same functions as before 1989. The persistence of State Security and the presence of State Security staff and informers in the organs of power in democratic Bulgaria shielded all three groups of postcommunist

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<sup>39</sup> “Agenti na DS produlzhavat da izvirat ot parlamenta,” *Dnevnik*, September 4, 2007, [http://www.dnevnik.bg/bulgaria/2007/09/04/373827\\_agenti\\_na\\_ds\\_produljavat\\_da\\_izvirat\\_ot\\_parlamenta/](http://www.dnevnik.bg/bulgaria/2007/09/04/373827_agenti_na_ds_produljavat_da_izvirat_ot_parlamenta/) (accessed October 24, 2009).

<sup>40</sup> Iovo Nikolov, “Az ne biakh: Obiavenite za agenti na DS bivshi konstitutsionni sudii vliazokha v rezhim na obiasnenie,” *Capital* no. 26 (June 29, 2007), <http://www.capital.bg/show.php?storyid=354185> (accessed October 25, 2009).

<sup>41</sup> See official Decision no. 4 (September 4, 2007) of the Commission for Opening the Documents and Declaring the Belonging of Bulgarian Citizens to State Security and the Intelligence Services of the Bulgarian National Army, <http://www1.parliament.bg/kns/komissia%20dossieta/Rechenre-14-04-09-07.html> (accessed October 24, 2009).

<sup>42</sup> <http://www.europe.bg/htmls/page.php?id=9535&category=248> (accessed October 24, 2009).

<sup>43</sup> “Agenti na DS durzhat edni ot nai-golemite elektronni medii u nas,” *Mediapool* (August 3, 2009), <http://www.mediapool.bg/show/?storyid=155050> (accessed October 25, 2009).

<sup>44</sup> “Khora na DS upravliavali BNB do 1997-ma,” *Mediapool*, July 22, 2009, <http://www.mediapool.bg/show/?storyid=154659> (accessed October 25, 2009).

businessmen from prosecution for corruption. After all, these businessmen were all created by State Security, so it would not be very meaningful to prosecute them. Bureaucrats were willing allies of these businessmen in plundering state assets. This symbiotic relationship was not affected by Bulgaria's entry into the EU in 2007 or by EU reports of criminal ties between government officials and business groups.<sup>45</sup> The enduring presence of State Security as a political and economic actor remains the defining feature of post-1989 Bulgarian politics.

#### **Section IV: Applications to Other Post-Communist States**

The preceding sections laid out a model of party-state-secret police relations before and after 1989 developed from the Bulgarian case. However, the model should apply to all communist countries in which the exit from communism was incomplete. Which are these countries? Consistent with Darden and Grzymala-Busse 2006, I use the share of non-communist legislative seats won in the first free and fair elections as a measure of the completeness of exit from communism. According to this criterion, sixteen formerly communist countries did not have a complete exit from communism: Albania, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Kazakhstan, Kyrgyzstan, Macedonia, Mongolia, Romania, Russia, Serbia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan, whereas eleven did (Armenia, Croatia, Czechoslovakia, Estonia, Georgia,

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<sup>45</sup> On reaction to the EU anti-fraud office (OLAF) 2008 report, see [http://sofiaecho.com/2008/07/16/662175\\_olaf-report-on-bulgarian-officials-criminal-ties-political-reaction](http://sofiaecho.com/2008/07/16/662175_olaf-report-on-bulgarian-officials-criminal-ties-political-reaction) (accessed October 25, 2009).

Hungary, Latvia, Lithuania, Moldova, Poland, and Slovenia).<sup>46</sup> This model should therefore apply to these sixteen countries: we should expect to find remarkable continuities in the influence of State Security in these countries both before and after the exit from communism. Most notable among these countries is Russia, which deserves a separate discussion.

Traditionally, the scholarly literature on capitalism in Russia has not explored the connection between a KGB/FSB background and the levels of success of postcommunist capitalists. Instead, the literature has noted that connections to the Soviet party and state *nomenklatura* were highly predictive of success in the post-Soviet business environment of the 1990s.<sup>47</sup> In part, these findings can be explained by the fact that unlike in Bulgaria, there has never been an opening of the KGB/FSB archives in Russia, which makes it difficult to ascertain whether specific entrepreneurs have State Security connection. In addition, it is probably true that in the early 1990s connections to the party and the Comsomol were more important for business success than KGB connections.<sup>48</sup> In the mid- to late-1990s, connections to the Yeltsin were the best predictor of oligarchic success.<sup>49</sup> However, an important phenomenon occurred in the late 1990s, when three successive prime ministers had a KGB/FSB background: Yevgeny Primakov, Sergei Stepashin, and Vladimir Putin. They all hailed from the *unreformed* KGB, which had only changed its name but not its personnel or operating methods. With Putin's

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<sup>46</sup> See Keith Darden and Anna Grzymala-Busse, "The Great Divide: Literacy, Nationalism, and the Communist Collapse," *World Politics* 59 (October 2006), 83-115.

<sup>47</sup> Most notably, see Ol'ga Kryshchanovskaia, *Anatomiia rossiiskoi elity* (Anatomy of the Russian Elite) (Moscow: Zakharov, 2005).

<sup>48</sup> Steven L. Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge, MA: Harvard University Press, 1998).

<sup>49</sup> Chrystia Freeland, *Sale of the Century: The Inside Story of the Second Russian Republic* (2000); Paul Klebnikov, *Godfather of the Kremlin* (2000); Phillip Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (2002); and Marshall I. Goldman, *The Privatization of Russia: Russian Reform Goes Awry* (2003).

ascendancy to the presidency, individuals with KGB/FSB started to dominate not only politics, but business as well. Sociologist Olga Kryshtanovskaya found that 78 percent of the Russian elite had a KGB connection as of 2006 (they were *siloviki*); the elite was defined as 1,061 individuals who held top positions at the Kremlin, at the regional government, and at the most powerful corporations.<sup>50</sup> Future research can show whether criminal networks (which were very powerful throughout the 1990s and early 2000s) also had KGB connections, in parallel to such structures in Bulgaria.<sup>51</sup> The existing evidence is already suggestive that in Russia, much like in Bulgaria, the party-state-secret police nexus has survived the exit from communism. It bears pondering why KGB connections in Russia are so much more prevalent among the political and economic elite than in Bulgaria. Democratic institutions, for all their deficiencies in Eastern Europe, may have limited to a certain degree the extent of the presence of State Security in the post-1989 state. In contrast, the authoritarian reversion in Russia seems to have resulted in a KGB/FSB domination of both politics and economics.

It is important to ask whether the eleven countries that experienced a complete exit from communism are free from the lingering presence of State Security. This is a reasonable question, considering that the intelligence services of all Eastern Bloc countries were organized in similar ways, maintained constant communication and frequent exchange of data, and would presumably have all engaged in business activities similar to those of the Bulgarian State Security (so far, we have documentation on this

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<sup>50</sup> “Putin’s Russia: Kremlin Riddled with Former KGB Agents,” *Spiegel Online*, December 14, 2006.

<sup>51</sup> On crime and criminality in Russia, see especially Federico Varese, *The Russian Mafia: Private Protection in a New Market Economy* (2001); Vadim Volkov, *Violent Entrepreneurs: The Use of Force in the Making of Russian Capitalism* (2002); and David Satter, *Darkness at Dawn: The Rise of the Russian Criminal State* (2003).

only for the Stasi).<sup>52</sup> As new research suggests, even in a successful democratic country like Poland, *Bezpieka* deeply influenced post-1989 politics.<sup>53</sup> Research on the nature of economic transformations in these eleven countries may reveal that the party-state-secret police networks have impacted property transformations, but not the same extent as in countries where the exit from communism was delayed or incomplete.

## Section V: Applications to Communist States

One of the main problems in studying party-state-secret police relations in postcommunist states is the scarcity of data. This problem is especially severe when we deal with the five countries that are still ruled by communist regimes: China, Vietnam, Laos, North Korea, and Cuba. We do not even know how State Security is organized and operates in these countries, let alone whether it is involved in private business. Details about the size, organization, and methods of operation of the Chinese Ministry of State Security (*Guo'an Bu*) have never been made publicly available in China or abroad. On Vietnam, we have some valuable research about the creation of the intelligence service in 1945--1950, as well as about intelligence during the Vietnam War, but no studies have examined the evolution of the state security apparatus after 1975.<sup>54</sup> Existing studies of Laos focus either on the labor camp system or write in general terms about state terror, but provide no empirical information about the state security apparatus.<sup>55</sup> The North

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<sup>52</sup> Maria Haendcke-Hoppe-Arndt, *Die Hauptabteilung XVIII Volkswirtschaft*.

<sup>53</sup> Nalepa, *Skeletons in the Closet*.

<sup>54</sup> R. Gerald Hughes, Peter Jackson, and Len Scott, eds., *Exploring Intelligence Archives Enquiries into the Secret State* (London: Routledge, 2008), 103--122, 173--212.

<sup>55</sup> Bounsang Khamkeo, *I Little Slave: A Prison Memoir from Communist Laos* (Spokane, WA: Eastern Washington University Press, 2006); *Political Prisoners in the People's Republic of Laos* (London: Amnesty International, 1980).

Korean intelligence services are similarly shrouded in secrecy,<sup>56</sup> though research and memoirs of life in the gulags have been produced.<sup>57</sup> Finally, when it comes to Cuba, we know little beyond the names of various secret police directorates, which seem to correspond to those in Eastern Europe. The organization and operation of the secret police in those countries remains a black box.

Nevertheless, the postcommunist cases allow us to at least pose some questions about the countries that are still ruled by communist parties. To focus on China in particular, what are the backgrounds of the most successful businesspeople? Surprisingly little systematic knowledge exists on this point.<sup>58</sup> We are aware that the sons and daughters of the top *nomenklatura*, known as the princelings (*taizi dang*), have assumed leadership positions in major companies. But do successful entrepreneurs also benefit from their relations with the Ministry of State Security? Is some portion of Chinese overseas investment directed and managed by the Ministry of State Security? These questions might not be especially meaningful under the current political situation in China, when membership in the communist party and access to the *nomenklatura* can easily translate into business advantage.<sup>59</sup> But, should democratization occur, the extent of the infiltration of the state and the economy by State Security agents and informers may have profound implications for China's future economic and political trajectory. Eastern Europe teaches us that the prevalence of corruption in liberal democratic polities

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<sup>56</sup> For a short journalistic treatment, see Bradley Martin, *Under the Loving Care of the Fatherly Leader: North Korea and the Kim Dynasty* (New York: Thomas Dunne Books, 2004), 262--269.

<sup>57</sup> Kim En Man, *Political Prisoners' Camps in North Korea: Replicas of Stalinist Gulags* (Seoul: Institute for South-North Korea Studies, 1993); Kang Chol-hwan and Pierre Rigoulot, *The Aquariums of Pyongyang: Ten Years in the North Korean Gulag* (New York: Basic Books, 2005).

<sup>58</sup> However, the debate about ill-gotten wealth in China has at least begun: see "Original Sin: The Stigma of Wealth in China," *The Economist*, September 5, 2009, 70.

<sup>59</sup> Kellee Tsai, *Capitalism without Democracy: The Private Sector in Contemporary China* (Ithaca, NY: Cornell University Press, 2007); Bruce Dickson, *Wealth into Power: The Communist Party's Embrace of China's Private Sector* (New York: Cambridge University Press, 2008).

is at least in part a result of the persistence of party-state-secret police networks after the incomplete exit from communism.

## **Section VI: Conclusion**

The field of communist and postcommunist studies is bifurcated by several dividing lines. The first is temporal: studies typically focus on institutions that existed either before or after 1989, but not on institutions that span 1989. The second divide separates political reform from economic reform and from the restructuring of the state; these are examined as separate events, rather than as interrelated processes. The third divide is geographical: the countries of the former Eastern Bloc are always examined separately from the resilient communist regimes in Asia and Latin America. This paper has argued that these dividing lines can obscure the dynamics of property transformation in the postcommunist world.

A focus on State Security networks highlights that in order to understand postcommunist property transformations, we need to know how capitalists were created prior to 1989. The Bulgarian case amply demonstrates that individuals with State Security connections were the pioneer capitalists before 1989, and that these same individuals then became the most successful postcommunist entrepreneurs. Although a new group of oligarchs with no pre-1989 experience as employees or informers of the secret police is emerging, even those oligarchs have benefited from indirect links with State Security. This continuing influence of State Security networks points to the importance of studying communist-era institutions that survived in the postcommunist period.



This paper examines the symbiotic relations between the party, the state, and the secret police in the post-1989 redistribution of state property into private hands. State Security provides us with a lens for understanding the challenges of reforming the postcommunist state, the postcommunist political system, and the postcommunist economy. Stakeholders with State Security connections would block any political or economic reforms that threaten to undermine their close relationship with the state. The infiltration of all institutions of power by former secret police employees and informers means that the agents of the postcommunist state protect these state-created entrepreneurs. Rather than being captured by business interests, the state is a willing enabler of postcommunist entrepreneurship. This stable equilibrium has persisted in some postcommunist states despite liberal democracy and accession to the EU.

Finally, there is no analytical reason for developing theories of postcommunist property rights transformation that do not integrate the five countries in Asia and Latin America that are still governed by communist parties. These countries had institutions of governance identical to those of the Eastern European communist regimes.<sup>60</sup> When data become available, we might therefore expect to find out that the secret police was also intimately involved in the process of property redistribution in those countries as it was in the Eastern Bloc. More importantly, the resilience of party-state-secret police networks in Eastern Europe suggests that even if China, Vietnam, Laos, North Korea, and Cuba were to democratize some day, the quality of their democracy may be marred should they fail to carry out full lustration and thus allow State Security employees and informers to

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<sup>60</sup> For more on this point, see Martin Dimitrov, *Popular Accountability and Autocratic Resilience in Communist Europe and China* (book manuscript in progress).

maintain and consolidate their presence as the *eminence grise* in the postcommunist institutions of power.

## APPENDIX

**Table 1: Life Histories of the Most Powerful Bulgarian Oligarchs**

Name	2008 Net Worth	Born-Killed	Education	Pre-1989 Occupation	Post-1989 Business Field	Relationship to State Security
1. Iliia Pavlov (survived by widow)	\$2 billion (in 2003)	1960-2003	sports highschool	wrestler; smuggler	“insurance”; finance; heavy industry; tourism	married the daughter of the chief of military counterintelligence
2. Vassil Bozhkov	\$1.8 billion	1956	Math/Economics	black market currency dealer	gambling; “insurance”; construction; sports club	partner of Iliia Pavlov (see above)
3. Krasimir Gergov	\$1 billion	1961	sports academy	State Security	advertising and media	State Security employee
4. Tsvetelina Borislavova	\$0.7 billion	1959	international trade	State Security	“security” services; then finance	State Security employee (in foreign trade firms)
5. Khristo Kovachki	\$0.7 billion	1962	engineering	unknown	energy; ports;	<i>no documented links</i>
6. Ivo Prokopiev	\$0.7 billion	1973	international trade	student	media; banking; raw materials	both his father and brother worked for State Security
7. Emil Kiulev (survived by widow)	\$0.5 billion	1957-2005	police academy	State Security	finance	State Security employee
8. Georgi Gergov	\$0.5 billion	1956	agricultural science	Pig rearing complex chief	real estate; tourism; industrial fair	born in the same village as the Interior Minister (head of State Security)
9. Plamen Galev and Angel Khristov	\$0.5 billion		unknown	policemen	narcotics production and distribution; construction; car smuggling; extortion	employed by the successor of State Security in the 1990s, but fired on allegations of involvement with criminal groups
10. Grisha Ganchev	\$0.5 billion	1962	sports highschool; accounting	black market operations	petroleum; sugar; soccer club	partner of wrestler-gangster with links to State Security
11. Mladen Mikhalev	\$0.5 billion	1964	sports highschool	wrestler	“insurance”; banking; petroleum; soccer club	boss of an extortion group (SIK) with direct ties to State Security (Liuben Gotsev)
12. Tseko Minev	\$0.4 billion	1960	unknown	banker in Biokhim bank	banker	employed by bank created to serve State Security firms
13. Milen Velchev	\$0.35 billion	1966	international trade	student	minister of finance	personal connections with money launderers/gangsters with ties to State

						Security; family connections to State Security as well (through his brother and father)
14. Nikolai Gigov	\$0.32 billion	1961	unknown	arms trade	arms trade	State Security employee
15. Rumen Gaitanski	\$0.3 billion	1957	unknown	Interior Ministry	trash collection; "insurance"; construction	Interior Ministry employee
16. Maia Ilieva	\$0.3 billion	1973	unknown	student	"insurance"; erotic entertainment; tourism	widow of Georgi Iliev, the boss of an extortion empire ("insurance holding") with links to State Security
17. Slavcho Khristov	\$0.3 billion	1955	unknown	TV cameraman	restaurateur; then banking; tourism; construction	business partner with extortion gangs and bankers with direct links to State Security
18. Liudmil Stoikov	\$0.3 billion	1963	national sports academy	barman	scrap metal; tourism; heavy industry	partner of Ismet Saban (who supervised smuggling for State Security) and Liuben Gotsev (head of intelligence for State Security)
19. Valentin Zlatev	\$0.3 billion	1965	international relations	student	petroleum; sports club	<i>no documented link</i> , but son of the mayor of Zhivkov's village
20. Vetko Arabadzhiev	\$0.25 billion	1956	unknown	unknown	tourism	partner of Iliia Pavlov (see above)
21. Georgi Krumov	\$0.17 billion		engineering	unknown	trash collection; real estate	cover for his business provided by State Security employees
22. Todor Batkov	\$0.15 billion	1958	law	government nomenklatura	mobile telecom company; publishing; soccer club	manager of a business empire built through connections with State Security and the KGB
23. Evelin Banev	\$0.15 billion	1964	unknown	unknown	extortion; money laundering; contract killing; tourism; investment	participated in extortion/smuggling gangs in the 1990s managed by former State Security employees

**Sources:** Dimitur Zlatkov, *BG Oligarsi 1: Tainite na nai-bogatite bulgari* (Bulgarian Oligarchs 1: The Secrets of the Richest Bulgarians) (Sofia: New Media Group, 2007); Dimitur Zlatkov, *BG Oligarsi 2: Nedosegaemite bulgari* (Bulgarian Oligarchs 2: The Unreachable Bulgarians) (Sofia: New Media Group, 2008); and various publications in *Capital* weekly.