

CAN THEY GO BACK AND FIX IT?*: REFLECTIONS ON SOME HISTORICAL ROOTS OF RUSSIA'S ECONOMIC TROUBLES

STEFAN HEDLUND

INTRODUCTION

In recent years, in the social sciences, it has become increasingly common to argue that history matters, and, by implication, that culture matters.¹ This new departure most certainly is a healthy one. The typical trend of the 1980s and the 1990s, towards an ever-greater reliance on sophisticated mathematical techniques of analysis, has been most unfortunate, in the sense that it has brought in its wake widespread ethnocentric biases, understood here as dulled sensitivities to the importance of cultural differences.

These observations have a great deal of relevance to the case at hand, which concerns the role of Russian history in explaining Russia's current economic troubles, and the relevance of historical explanations in recommending future policies. What makes the approach both relevant and valuable may be clearly seen against the background of events that played out in the turbulent last decade of the twentieth century.

When the formerly socialist countries of Eastern Europe and of the Former Soviet Union set out, in the early 1990s, to undertake radical economic reform, there were widespread beliefs that from an economic policy point of view all countries are the same. Fanciful analogies from the field of medical treatment were used to prove that economic reforms could be devised according to the principle of "one size fits all." This, at least, formed the intellectual basis of the since so vilified "Washington Consensus."

A decade later it is striking to note how divergent the outcomes have been. While some countries, notably those in Central Europe and in the Baltics, have made the grade, others have failed quite miserably. Given that Russia, regrettably, has placed herself rather firmly in the latter category, it has been tempting for many writers, from different quarters, to seek some inherent fault with that

* This article was derived from a larger research project undertaken during a stay at Hokkaido University's Slavic Research Center in the winter of 2001-2002. An earlier version was presented at the SRC Winter Symposium in January 2002. I am indebted to Petr Pavlinek, Yoshiaki Nishimura, Peter Rutland, Steven Rosefielde and two anonymous referees for helpful comments.

1 For powerful statement of the latter, see a recent collection of papers from Harvard University's Academy for International and Area Studies, published in Lawrence E. Harrison and Samuel P. Huntington, eds., *Culture Matters: How Values Shape Human Progress* (New York: Basic Books, 2000).

country, or, indeed, with its inhabitants. At times, such approaches have gone to unsavory excesses, including allegations of genetic defects, that we shall leave for others to comment upon.

CULTURE MATTERS

The main thrust of the following presentation is simple. We shall argue that the economic troubles that befell Russia in her first decade of post-Soviet existence had roots that extend several centuries back into Russian history. More specifically, it will be argued that Russia, at the time of the Soviet collapse, was marked by a number of deeply entrenched institutional peculiarities that the much-vaunted “young reform economists” failed to take into account.

While the argument as such may thus be seen as simple, its defense is rather more complicated. Arguing that countries and cultures are essentially different, and that this may have serious implications for the pursuit of economic policy, immediately raises a number of serious methodological questions. Above all, we must be specific in making distinctions between the role of history and the role of culture.

To begin with, it is easy enough to *say* that Russia is different. Anyone who tries to argue that this represents a truism, in the sense that *all* countries are essentially different from one another, may be rebuffed by some simple references to the long-standing and at times tortuous Russian debates about the true nature of Russia.

Does Russia belong to Europe or to Asia, or should she staunchly defend her position as a *sui generis*, a special case that is neither Asian nor European? Is it a problem that Russia missed out on both the Renaissance and Reformation – those deep mental transformations that shaped the rest of Europe – as the “Westernizers,” the *zapadniki* of the nineteenth century, would have us believe? Or should we perhaps follow the opposing school, the Slavophiles, in holding that Russia’s failure to emulate Western culture actually is a valuable asset that should be treasured?

Looking for answers to questions of this kind is far beyond the scope of the present paper; perhaps it is even beyond the scope of rational discourse as such. The point of the illustration is somewhat different. It aims to show that while Russia’s famed soul searching does constitute an important dimension of major difference from other European nations, it is not immediately evident how and indeed if such cultural features have any relevance to the country’s broader historical progression. Economic policy in particular at first might seem rather free from considerations of the true nature of the Russian soul.

While we shall maintain below that culture does matter, even to economic policy, it will thus be imperative also to show how the causation runs. Stating that Russia is different simply because it always has been different clearly will not do. Our approach to this methodological challenge shall proceed in three steps.

The first will be to show that Russia at some specific point in time evolved or built an institutional structure that was fundamentally different from that which could be observed in other contemporary states. This task is fairly straightforward. Any standard text on world or European history, such as William McNeill's *The Rise of the West*,² will readily tell us that conditions on Europe's eastern frontier, not the least under the Mongol "Yoke," were such that the Muscovites simply had to develop an institutional structure that was radically different.

The second step will be to show that the emergence of objective institutional differences also served to produce amongst the Russians subjective perceptions of being somehow innately different from other Europeans. The very fact that debates of the kind just mentioned have been raging for so long, and continue to be important to this very day, illustrates the presence of self-perceptions that have become deeply entrenched in the cultural dimension.

The tricky thing lies in showing that this emergence of institutional differences, which originally may have been due to quite rational consideration, over time also would come to produce cultural inhibitions that were to have a far greater impact on policy making than those very differences themselves. As a result of this cultural transcription, there would emerge serious anachronisms, in the form of institutions that would survive well beyond the time when they may have been rational.

One strand of this argument holds that the deeply rooted sense of being different, of needing a special path of sorts, has produced amongst the Russians a complex relation to the West as a whole, and thus to Western influence in the form of economic policy prescriptions that are derived from essentially Western realities.

This, we shall argue, applies to some of the most fundamental building blocks in a functioning market economy, such as the role of private property or the balance between impersonal monetary exchange and the reliance on networks of *blat* and other forms of personalized obligations.

Over time, the feelings of being different also have impacted rather seriously on the pursuit of economic policy. Even a cursory glance at Russian history will reveal a number of points where feelings of being backward have resulted in perceived needs to achieve rapid catch-up, which in turn have triggered spurts of forced economic development, entailing the use of command methods and forced resource extraction.

In his celebrated essay on "Economic Backwardness in Historical Perspective," for example, Alexander Gerschenkron offers a presentation of consequences that is well in line with our argument: "Precisely because of the magnitude of the governmental exactions, a period of rapid development was very likely to give way to prolonged stagnation, because the great effort had been pushed

2 William S. McNeill, *The Rise of the West: A History of the Human Community* (Chicago: The University of Chicago Press, 1963).

beyond the limits of physical endurance of the population and long periods of economic stagnation were the inevitable consequences."³

The third and crucially important step in our approach entails proceeding from simply observing that Russian history has been different, to demonstrating that differences in the past are relevant also for the present in ways that go beyond cultural discourse *per se*. This becomes particularly important if understood in the sense that historical experiences may inhibit current-day decision-making. Pursuing this line of argument, we shall enter into the realm of the theory of path dependence.⁴

Originally developed by economists, the main point of the theory was to show how early choices of technology could lead to inferior equilibria that would prove hard indeed to break out of. The most important results of this approach have been the notion of multiple equilibria, and the associated analysis of factors determining paths that lead to inferior positions.

Since the problems at hand, however, concern not narrow issues of obstacles to technological change, but rather a very broad spectrum of impediments to positive societal or institutional change, we shall have to adapt the theory somewhat. It is here that the cultural dimension becomes so important, and thus also where we shall have to be specific about what we mean by "culture."

Treading carefully, we may first endeavor to proceed beyond the boundaries of the previously dominant economic concepts of physical and human capital. By incorporating into the analysis factors such as "social capital"⁵ or "social capability"⁶ we will be pointed in the direction of looking for underlying institutional causes of inferior equilibria, causes that may lead societies to become locked into positions that are well below theoretically achievable production levels.

As Moses Abramowitz notes, however, the trouble with concepts like "social capability" is that "no one knows just what it means or how to measure it."⁷ While there is plenty of circumstantial evidence of gross resource mismanagement, which would tend to support the view that Russia has been a persistent economic underperformer, we shall refrain from venturing down that road.

Our approach instead will follow arguments laid out by Mancur Olson, who argues that many less developed economies operate well below their pro-

3 Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962), p. 17.

4 For some tentative explorations of the implications of Russian path dependency for current-day policy making, see Stefan Hedlund, "Path Dependence in Russian Policy Making: Constraints on Putin's Economic Choice," *Post-Communist Economies* 12:4 (2000).

5 James S. Coleman, *Foundations of Social Theory* (Cambridge, Mass.: Harvard University Press, 1990), esp. ch. 12.

6 Moses Abramowitz "Catching Up, Forging Ahead and Falling Behind," *Journal of Economic History* 46:2 (1986), p. 387.

7 *Ibid.*, p. 388.

duction possibility frontiers simply because they have poor institutions and pursue bad economic policies. Free markets have simply proven grossly inadequate in achieving equalization of marginal returns across national borders. In his view, the “sums lost because the poor countries obtain only a fraction of – and because even the richest countries do not reach – their economic potential are measured in the trillions of dollars.”⁸

In the case of Russia, what Gerschenkron refers to as “abysmal economic backwardness,”⁹ may be seen as the outcome, in the final days of the empire, of a track record of economic policy making that had been marked for centuries by persistent failure to break out of an inferior position. The causes of such repeated failures make up a case of strong path dependency, where obstacles to change are deeply embedded in the institutional matrix of the society at hand.

It is factors of the latter kind that we shall have in mind when arguing that not only history but also culture matters. Perhaps the strongest case for a cultural approach to the issue of why some countries have become rich and others have stayed poor has been made by David Landes, *inter alia* in an article with the striking title “Culture makes almost all the difference.”¹⁰ Not surprisingly, his use of “culture” as a blanket explanation for very broad performance problems has led to accusations of cultural determinism.

Seeking to steer clear of such accusations, we shall recognize that there is a danger here of moving from path dependence to “past dependence,” of arguing, for example, that because Russia has a long history of economic underperformance it will simply have to continue along that path.¹¹

As any historian worth his or her salt will readily tell you, history is about contingency, and this will clearly have to be taken into account. At the same time, however, the core of the institutional approach is to tell you that contingencies will have a different impact on formal rules and on informal norms.

When we operate with the notion of multiple equilibria, and present Russia as a country that is locked into an inferior equilibrium, it thus becomes crucially important to investigate if the factors causing the lock-in are determined by formal rules that are marked by increasing returns, or if they are lodged in cultural norms that may prove hard to alter. The latter investigation will make up the bulk of the present article.

Summing up this rather lengthy introduction, we have in front of us two separate tasks, both of which are of considerable magnitude. The first is to map

8 Mancur Olson, “Big Bills Left on the Sidewalk: Why Some Nations are Rich and Others Poor,” *Journal of Economic Perspectives* 10:2 (1996), p. 22.

9 Gerschenkron, *op. cit.*, p. 17.

10 David Landes, “Culture Makes Almost all the Difference,” in: Lawrence E. Harrison and Samuel P. Huntington, eds., *Culture Matters: How Values Shape Human Progress* (New York: Basic Books, 2000). See also David Landes, *The Wealth and Poverty of Nations: Why Some are so Rich and Some so Poor* (New York: Norton, 1998).

11 I owe this caveat to Petr Pavlinek.

out how Russia came to be locked into an inferior institutional arrangement, which has served over the centuries to produce persistent economic underperformance. The second is to explore whether this lock-in may be somehow broken, such that the Russian economy can attain and sustain its “true” production possibilities.

Approaching these tasks will necessitate taking a rather long historical view, beginning with the formation of Kievan Rus, in the middle of the ninth century. Given all that has been said and written about Russia’s subsequent troubles, it may be worthwhile to begin by underlining that the Eastern Slavs really did get off to a good start.

THE PREHISTORY

An important problem in previous attempts at mapping out centuries-long institutional path dependencies has been that of finding a point of departure.¹² In a more general sense, this represents a classic problem for all of the social sciences: only on very few occasions may we pinpoint the exact point of departure for a process of socio-economic change, be it positive or negative.

Below it will be argued that in the Russian case we do have a specific point in time when the lock-in occurred. Since this point in time is broadly associated with the rise of Muscovy, in the fourteenth through the sixteenth centuries, our opening account of developments in Kievan Rus shall serve mainly as an analytical contrast.

The fact, moreover, that our knowledge about the Kievan period is so poor also implies that the account shall have to be highly stylized and perhaps also somewhat idealized. Whatever conclusions may be drawn must be seen against this background.

Kievan Rus

With the advance of Islam in the eastern part of the Mediterranean, western traders began instead to exploit the Russian waterways, leading from the Gulf of Finland to the Black Sea and further on to Constantinople. Known as the “route from the Greeks to the Varangians,” this trade route was to form the very backbone of early Rus society and economy.

At one end of the route was the great city of Novgorod, of which we shall have more to say below. At the other was the even greater city of Kiev, which was to form the center and capital city of Kievan Rus. The wealth and power that was displayed there, at the height of its glory, suggests that perhaps Kiev might have developed into the metropolis of a modern European state.

12 As a prominent example, we may note that when Robert Putnam argues that the causes of the current divide between north and south in Italy may be traced back to the thirteenth century, he also holds that the real roots of such differences in social capital are “lost in the mists of the Dark Ages.” (Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1993), p. 180.)

The reasons why that was not to be are manifold, and we only have room to gloss over some of them here. Given, moreover, what was just said about the poor state of our knowledge, it again should be underlined that the illustration in large measure must be a stylized one. The main theoretical importance of the example of early Kievan Rus lies in the fact that from an institutional point of view it might have been the starting point of a path of market-friendly institutional change.

Had Kiev been allowed to develop along a positive path of institution building, then we might have been able today to map out a story similar to that of *The Rise of the Western World*, in which Douglass North and Robert Paul Thomas provide an illustration of how successful institutional change over many centuries served to produce what we know today as societies that are built on democracy, market economy and the rule of law.¹³

The mainstay of what *might* have been a story of successful Kievan development relates to the emergence of demands for market-friendly institutional change, encompassing not only monetization but also legal regulation and a political system that was geared toward exploiting the lucrative trade with the Byzantines. With some considerable stretch of the imagination, we may speak of at least embryonic forms of the above, i.e. democracy, market economy and the rule of law.

The first task that was undertaken by the early Varangian rulers, notably by the presumed founder of the state, Grand Prince Oleg, was that of securing control over the trade route. This was done via a series of campaigns against Constantinople, to be followed by treaties regulating the further conduct of trade that were highly favorable to the Rus.

In a parallel process, the growth in trade created internal demands for institution building. The first step in the emergence of a strategy to support export-led growth was to develop a system for the collection of tradables. In each district a special official, known as *posadnik*, was made responsible for the collection and transfer to Kiev of levied taxes.

Another consequence of the growth in trade was the influx of money. This was important not only in the sense of leading to a general monetization of the Kievan economy, and to resources being made available for monumental construction works. It also had important implications for relations between the princes and their subjects.

As both boyars and merchants were invited to take part in the trading expeditions, they never developed much of a dependence on exploiting the land. The pursuit of commercial gain may thus be said to have prevented the emergence of such hierarchical dependencies that would be so characteristic of subsequent Muscovy.

13 Douglass C. North and Robert Paul Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973).

Finally, the rapidly expanding trade also produced demands for legislation. Beginning with the above-mentioned treaties with the Greeks, a century later the process culminated in the *Ruskaia Pravda*, the first law code of Rus.

Although the *Pravda* does contain a number of interesting clauses, especially on the ordering of different types of property, we should be careful not to overestimate its importance. The image of Kievan Rus that it reflects has very little to do with our normal understanding of a "state." Richard Hellie, for example, frankly notes that "stateness" in the tenth century consisted of little more than tribute collecting, within a society that was "probably often tribal, certainly almost always consensual, and relatively fluid concerning the flatness of the social pyramid."¹⁴

In a similar vein, Richard Pipes draws a compelling parallel to the great merchant enterprises that developed in seventeenth- and eighteenth-century Europe, such as the Hudson Bay or East India companies, that were "founded to make money but compelled by the absence of any administration in the area of their operations to assume quasi-governmental responsibilities."¹⁵

In thus reducing Kievan Rus to the stature of a loosely organized commercial federation of boyar-merchants, we should bear in mind that it nevertheless did produce some rudimentary forms of legal and political institutions. The *Ruskaia Pravda* would serve as the basic law of the land well into the fifteenth century, and there also did emerge a popular representation of sorts, known as a *veche*.

Perhaps the main reason why Kiev failed to develop into the center of a modern European state may be derived from its peculiar system of political succession. Rather than instituting a traditional hereditary monarchy, the grand princes of Kiev chose to adopt a system of lateral succession that was common amongst the peoples of the steppe. This forms by far the most important link between old Kiev and subsequent Muscovy.

The real turning point came with the death of Grand Prince Yaroslav, in 1054. Instead of designating his eldest son as successor, in his will he divided the lands between five sons and a grandson, so that each got a territory. An important consequence of this act was the implied communality of dynastic rights.

It was not only that the patrimony went to all of his male offspring as a group. There also was a clear understanding amongst the latter that when the eldest son died he would be succeeded not by his son but by the brother who was next in line of seniority. There was thus no sense of individual fiefdoms, but rather of a collective patrimony. The Russian historian Vasilii Kliuchevskii refers to this as a "rota system," and he provides a detailed account of all the problems that it caused.¹⁶

14 Richard Hellie, "Foreword," in: Daniel H. Kaiser, ed. and transl., *The Laws of Rus – Tenth to Fifteenth Centuries* (Salt Lake City, Ut.: Charles Schlacks Jr., 1992), p. xii.

15 Richard Pipes, *Russia Under the Old Regime* (New York: Charles Scribner's Sons, 1974), p. 31.

16 V.O. Kluchevsky, *A History of Russia*, Vol. 1 (London: J.M. Dent & Son, 1911), ch. 7.

Over time it was bound to produce increasingly bitter feuding over rights to the better parts of the common heritage. Being thus eroded from within, the Kievan state became increasingly vulnerable to hostile raids by surrounding nomadic peoples, at times leading to large numbers of Slavs being carried off as slaves.

Following a protracted period of internal weakening and political fragmentation, the first half of the thirteenth century would bring upon Kiev two devastating blows, from which it would take a very long time to recover.

First there was the fateful fourth crusade, in 1203-04, which culminated in the looting of Constantinople and in the effective exclusion of Rus from the lucrative Mediterranean trade. Then, in 1237-40, followed the "Mongol Storm," the sudden onslaught of the fearsome Mongol hordes that first swept through the Volga-Oka region and then veered south to destroy utterly an already seriously weakened Kiev.

The Successor States

With Kiev effectively gone, the land of Rus had been deprived of its center and capital city. In its place there would emerge three essentially different successor states.¹⁷ One was Lithuania, which would join forces with Catholic Poland and as a result be disqualified from running as a true heir to the mother-city of Rus. Another was Novgorod, which did preserve all the right credentials but ended up being annexed by Muscovy. The third was Moscow, which would rise to become the center of an eventually global superpower.

Beginning with the case of Lithuania, it should be noted that the Lithuanians originally did not form part of Rus. It was as the Mongol grip over the lands of Rus was beginning to weaken, in the fourteenth century, that Lithuanian grand princes successfully expanded their realm deep into the western parts of old Kievan Rus.

Following these advances, about nine-tenths of the territory of the Grand Principality of Lithuania was Rus, and roughly three-quarters of the population was Rus – and Orthodox. In essence, it *was* a Rus state, adopting the Rus language, legal system, administrative structure and military organization.

This Western Rus state *could* have become the eventual Russia, an outcome that would have drastically altered the future course of Europe as a whole. After some vacillation, however, the grand princes of Lithuania decided to exchange their claims to the Patrimony of Yaroslav for union with Catholic Poland.

17 It should be noted that our use of the concept of "successor states" is somewhat questionable. When Muscovy rose to power, Kiev had long since perished and the tracing of a link between the two may to some extent be seen as representative of Great Russian chauvinism. While it would be technically more correct to speak of different states that emerged within the Eastern Slav settlement area, we shall maintain the "successor" perspective for ease of presentation.

Today, both Poland and Lithuania form parts of the European community, if not yet of the European Union. The areas that once were western Rus proper have reverted to what is now Belarus and Ukraine, which forms the basis of a whole different story. Proceeding instead to the next of our three successor states, that of Novgorod, which constituted the second city in the Kievan rotation scheme, we shall find a more direct line of progression.

In 1136 the rulers of Novgorod capped a lengthy process of growing *de facto* self-rule by proclaiming full independence. Part of the explanation for the subsequently spectacular growth of "Lord Great Novgorod" (*Gospodin Velikii Novgorod*) lies in its successful avoidance of both of those external factors that were given above as reasons for the decline and fall of Kiev.

When Kiev was shut out of trade with the Byzantines, Novgorod could make up for the loss by developing trading relations with the Hanseatic League, and when the Mongols proceeded to sack Kiev, Novgorod was lucky enough to see the new enemy bypass its territory.

By having thus secured both the (relative) independence and the steady flow of resources needed to chart their own course, the rulers of Novgorod could proceed to develop further those embryonic components of market economy, democracy and the rule of law that (may have) emerged in Kiev. By far the most important feature of this development lies in the introduction of a system of contracting for the ruling princes.

The basic reason for the Novgorodians to want to have a prince at all was linked to the need for military defense, but there was also a certain judicial component involved; it was thought that an outsider might be better placed to adjudicate serious domestic differences. The role of the hired princes would, however, be strictly circumscribed. Surviving contracts show that the Novgorod *veche* went to great lengths in order to prevent them from exercising any real power, or indeed from settling down inside the city.

While this important constitutional arrangement does provide good reason on its own for speaking of democratic institution building, in the form of a division of powers, it is the powers that were vested in the *veche* that provide the real rationale for calling Novgorod a republic. Membership in the assembly was extended to all male citizens, and decisions were taken by unanimous vote.

On the economic side, the commercial interests that were generated by trade with the Hansa in turn created demands for institutional change that went much further than had been the case in old Kievan Rus. Most importantly, the steady growth of markets implied that cash cropping increasingly could take the place of subsistence agriculture. Thus the time had come to introduce a system of property rights in land, which would make it possible for urban merchants to set themselves up as private farmers.

An Italian Digression

When we look at the emergence of Novgorod's strongly export-oriented growth strategy, and at the associated process of market-friendly institutional

change, including democratic institution building, it is tempting to look at parallel developments, of a similar nature, that took place in northern Italian city-states such as Venice and Genoa.

What happened there, towards the end of the twelfth and the beginning of the thirteenth century, was nothing less than the birth of what would come to be known as market economy. Strikingly, in the case of Genoa, as in Novgorod, it was associated with short-term contracting of outsiders to serve as rulers.

The triggering factor in the Italian case was the crusades, which opened up the eastern Mediterranean to potentially highly lucrative long-distance trade. The challenge was to solve the problem of escalating transaction costs, which placed serious limitations on the ability to reap prospective gains from trade. The institutional response was for the princes, representing the state, to enter the scene as third party enforcers.¹⁸ As a result, in the coming two to three centuries northern Italy would develop rapidly and amass great wealth.

In the social sciences, notably in the literature on constitutional choice, this role of the state has attracted substantial interest. Particular importance has been attached to the ability of the state to make a credible commitment to fulfilling this important task, a challenge that takes us into a variety of constitutional techniques of binding.

It is also in this sense that our previous distinction between different successor states becomes particularly important as an illustration. If we accept that both Novgorod and Muscovy evolved out of the commercial federation that was Kievan Rus, it follows that from an institutional perspective both may be said to have had the same initial conditions. Yet, the contrast between their respective paths of development could hardly be more striking.

In the former case, the local rulers succeeded in maintaining the commercial culture and in replacing the destabilizing rota system with a set of republican institutions that were rooted in the rule of law. At the height of its glory, Novgorod was marked by full equality before the law, by enforceable rights to property in land, and by legislative powers being vested in the veche. For all practical purposes, princely rule over the city-state was terminated already by the early fourteenth century.

In the case of Muscovy, as we shall see, the rulers were forced by circumstances to opt for the construction of a warrior state rather than a trading state. The resulting needs for resource extraction, rather than wealth creation, under conditions of severe natural constraints, would have important consequences for the construction of the state as a whole: it was transformed into an autocratic system that effectively would remain in place until the early twentieth century, when it was replaced by a communist dictatorship.

Many historians have tended to accept the eventual fate of Novgorod as inevitable, and perhaps that is the correct interpretation. Wedged in between

18 Avner Greif, "Political Organizations, Social Structure, and Institutional Success: Reflections from Genoa and Venice During the Commercial Revolution," *Journal of Institutional and Theoretical Economics* 151: 4 (1995).

the increasingly powerful principalities of Muscovy and Poland-Lithuania, it would only be a question of time before she would have to succumb. Adding to the problem, by the time Novgorod was overwhelmed by Muscovy, her republican institutions had degenerated into a ruling oligarchy, and feuding within the elite had served to weaken the state.

Nevertheless, it is also the case that other institutions of fundamental importance, such as those that supported commerce, demonstrated surprising resilience. The simple fact that following his annexation of Novgorod, Grand Prince Ivan III would undertake substantial confiscations of land and mass deportations of the Novgorodian elite, indicates the presence of institutions that were perceived by Muscovy as vital threats to its autocracy and to its subsequent policy of sealed borders.

We may round off the argument by listening to the words of Henrik Birnbaum, addressing the question of whether the 1478 annexation of Novgorod by Muscovy served to change the course of Russian history fundamentally. Recognizing all the internal problems, he maintains that the latter outcome was "by no means the only conceivable." Had "the Novgorodians been able to defeat Ivan III on the banks of the Shelon River in 1471, perhaps with the help of their Polish-Lithuanian ally, the course of Russian history may well have been entirely different."¹⁹

This is certainly not the place to pursue such counterfactual speculations. Still, Birnbaum does illustrate one crucially important point, namely the vast institutional differences that had emerged between Novgorod and Muscovy. At the time of the final showdown it would have been difficult to envision any serious potential for Muscovy to develop democracy and a market economy, and perhaps even less so when it comes to the rule of law.

History provides plenty of illustrations of the more general problems here. In a study of Western European development in the period from 1050 to 1800, for example, J. Bradford De Long and Andrei Shleifer contrast the performance of city-states that experienced merchant-friendly rule with those that were marked by "strong princely rule." Their conclusions point eerily in the direction of what will be said below about Muscovy.

Ruling princes "saw the legal order as an instrument of control rather than as a constraint on their actions." They lived in "parasite cities," which were "centers of neither trade nor urban industry but instead the homes of bureaucrats and the favored dwelling places of landlords." And under their rule, property was always legally insecure: "Subjects do not have rights; they have privileges, which endure for only as long as the prince wishes."²⁰

19 Henrik Birnbaum, *Novgorod in Focus: Selected Essays by Henrik Birnbaum* (Columbus, Oh.: Slavica Publishers, 1996), p. 180.

20 J. Bradford De Long and Andrei Shleifer "Princes and Merchants: European City Growth Before the Industrial Revolution," *Journal of Law and Economics* 36 (October, 1993), pp. 673, 675, 679.

The central question that emerges out of these observations and speculations is the following: What was it really that made Muscovy so different, that prevented *its* princes from joining forces with Novgorod in building a successful commercial republic? To that question we shall now turn.

THE LOCK-IN

The theoretical appeal of the case of Muscovy lies mainly in the fact that it marks the beginning of a several centuries long process of negative path dependence, understood here as a failure to undertake those reforms that would maximize or best exploit the country's theoretically available production possibilities, in the sense indicated above by Mancur Olson.

Since the study of failure really ought to be more informative than that of success, the Russian example does hold great promise of advancing our understanding of the theories of path dependence and of institutional change in a more general perspective. So, to repeat our question from above, what was it that set Muscovy on its negative path?

In Russian historiography, the harshness of nature and religious Orthodoxy have figured prominently as explanations for the country's special path of development. While there is much to be said for such approaches, they can never tell more than part of the story. Below it will be argued that it was a peculiar confluence of two sets of events that served to produce the institutional lock-in.

While the first is a story of rational adaptation to harsh conditions under Mongol rule, the second resides in the formulation of what James Billington has referred to as "Muscovite ideology,"²¹ the latter being a set of cultural beliefs and values that would prove inimical to the pursuit of commercial gains that was so characteristic of Novgorod.

Building Autocracy

In its early stage of development, before the arrival of the Mongols, the Volga-Oka region was marked by serious fragmentation. The landscape was made up of extensive swamps and a multitude of minor rivers and streams, which produced a dispersal of settlements into many largely unconnected strips of dry land. If one adds to this that landholding was assuming major importance to the ruling elite, we have the basis of what would come to be known as the *udel'nyi poriadok*, or "appanage system."

The transformation of landholding customs had two main characteristics. One was that the previous circulation of princes between principalities was stopped, and the second that the new stationary princes assumed rights to determine in their wills how their patrimony was to be divided amongst heirs.

21 James H. Billington, *The Icon and the Axe: An Interpretive History of Russian Culture* (New York: Vintage, 1970), ch. II:1.

The practical implications were quite substantial. After the death of a prince, his *votchina* was subjected to an increasing number of subdivisions. Piece by piece appanage lands were carved out of the common body, and the land as a whole entered a phase of internal divisions that were even more disruptive than the preceding feuding in Kiev.

Given the poverty and the fragmentation of the land, it is not surprising that the Mongols would show little interest in undertaking an outright occupation. Their main source of revenue came from taxing the Silk Road, which was located far away to the south. From Rus they would demand tribute and support troops, but otherwise they would leave the region fairly much alone.

These observations are essential in seeking to understand the impact of the "Yoke" on the emergence of Muscovy. In the initial stage of their rule, the Mongols had census lists drawn up, and they sent special tax collectors to extract their tribute. Gradually, however, they adopted a more cost-effective approach, allowing Russian princes to assume responsibility for meeting their demands.

This latter delegation of authority should be seen as part of the broader system of Mongol rule over Rus. Reserving for themselves the right to determine who would be princes of what cities, rights that would be granted via a special patent, known as *iarlyk*, the khans effectively forced prospective candidates to travel to their capital at Sarai, on the lower Volga. There the visitors would have to engage in complex palace intrigues, the outcomes of which often could be lethal.

In these intrigues it was the Muscovites that turned out to be the most successful. Their first and leading champion was Prince Ivan I, also known as "Kalita," or "the moneybag." According to Kliuchevskii, no prince "more often went to pay his respects to the Mongol potentate than did Ivan Kalita, nor was he ever aught but a welcome guest, seeing that he took care never to come empty-handed."²²

His successors would secure for themselves not only the right to act as tax collectors for all of Rus, but also the title of Grand Prince of Vladimir, thus in effect assuming responsibility as a proxy government of sorts over the Mongol-controlled parts of Rus. It was within this framework of close interaction with the Mongols that the rise of Russian autocracy took place.

The first task was to break the appanage system. The Muscovites began this process by making increasingly preferential allocations in their wills to their elder sons, and they were aided in their ambition by the fact that until the succession of Vasiliï II, in 1425, the eldest son also was the last surviving heir.

Though it took a protracted civil war for Vasiliï to enforce his claims to the throne, he did succeed and with this achievement Muscovite succession became *de facto* hereditary. Thus the ground had also been prepared for Ivan III, also known as "the Great," who would set Muscovy on its course towards great power status.

²² Kluchevsky, 1911, op. cit., p. 286.

In addition to a stunning territorial expansion, he also implemented a program of institutional change that would fundamentally alter the nature of the Muscovite state. It had two main components, one being a logical consequence of the other.

The mainstay of the ambitions for power that marked Ivan the Great was his claim to personal ownership of all property in the land. Because this claim directly contradicted the previous principle of *votchina*, of boyars and princes holding land in hereditary tenure, the stage was set for confrontation.

In a process that lasted over a century, Ivan and his successors endeavored to break with this tradition. By introducing a new form of landholding, known as *pomestie*, they also managed to impose on the nobility a full service obligation; *pomestiia* would be associated with a lifelong obligation of service to the grand prince, later the tsar.

The first substantial distribution of *pomestiia* came after the capture of Novgorod, in 1471-78, when forced deportations of local boyar clans left the grand prince with much vacant land. Some he kept for himself, the rest was handed out to loyal servitors.

Over the coming century, the pattern of landholding was marked by a strong shift from *votchina* to *pomestie*, and by the time of death of Ivan the Terrible, towards the end of the sixteenth century, the Muscovites had successfully established the principle of lifelong service for the nobility. There remained no "private" sphere where boyars could make their living without acceptance by and service to the tsar.

The logical consequence of this *de facto* enserfment of the nobility was a process of enserfment of the peasantry. Much as the boyars of old had enjoyed customary rights of departure without forfeiting their land, the peasantry also had had a customary right to leave, which was specified in time to the end of the agricultural season.

The introduction of serfdom would proceed via a gradual curtailment of such rights, ending in a system where the peasantry was fully prohibited from leaving their place of residence (and thus of work). The reason behind this process was linked to the increasing burdens on the nobility, and to the opening up of new lands in the east.

As the plight of the peasantry grew worse, at the hands of the hard-pressed landlords, peasants increasingly saw flight as the only way out. With increasing numbers of peasants leaving for the easier frontier conditions in the east, both the landlords and – by implication – the tsar were suffering major losses. Having no other capital but labor to till their fields, they saw restrictions on peasant mobility as the only way of preventing a total collapse of the tax base, and thus of the state as such.

Towards the end of the sixteenth century, a census was drawn up to be used as a basis for introducing measures designed to capture and return runaway serfs. At first the screw was loosely tightened, introducing temporary restrictions on the rights of departure and allowing those who had been on the

run for more than five years to freely choose a new place to settle. By the early seventeenth century, however, all vacillation was over. The peasants were firmly tied to the turf, and would so remain until the formal abolition of serfdom, in 1861.

An immediately striking feature of these developments lies in the fact that although we are faced with truly fundamental transformations, in no case do we witness legislation being introduced or rules being established that are anything but pure constraints from above.

There was never any law passed to introduce serfdom for the peasantry; they were simply prohibited from leaving their place of residence. Similarly, there was never any law passed to revoke the boyars' customary right of transferring to the service of another prince; it was just that in the end there was only one prince left to serve.

Even more importantly, the real puzzle lies not so much in the emergence of the Muscovite system as such but in the fact that those very special institutional arrangements would remain in place for so long, enduring well into the time when the original reasons for their emergence had long since been removed.

It is at this point that we shall bring into play the role of the Orthodox Church, as a factor providing the extra "cultural" ingredient that would be necessary for an institutional lock-in to occur.

Producing Ideology

In the early period of Kievan Rus, the Church was charged with the organization and supervision of the family order, the religious order, and the moral order. As the traditional norms of native religions were firmly entrenched, however, the best that could be achieved was a form of dual belief-system, to be known as *dvoeverie*. Until at least the mid-fourteenth century, most of Rus would remain pre-Christian.

Somewhat surprisingly, perhaps, the Church would experience its golden age in the times of the Mongols. The khans not only allowed their new subjects freedom of religion. They also offered tax exemption for all Church lands, and exemption from military service for all Church people. To round off the bargain they even laid down a death penalty for any official seeking to interfere with those privileges. As a result, the Church in general and monasteries in particular were transformed into major landowners.

The rapid increase in Church landholdings that took place in the fourteenth and fifteenth centuries brought in its wake serious friction between the Church and the secular authorities. Towards the end of the fifteenth century, additional complications arose from the fact that the outside world was undergoing such traumatic changes that the role of the Russian Church would be cast in an entirely new light.

The roots of the latter process must be sought in a late fourteenth century Balkan milieu that was marked by the advance of Islam from the south, and by what Billington refers to as "anguish among Orthodox monks at the final de-

cline and fall of Byzantium."²³ Feeling that the end was indeed drawing near, many monks saw no other way to turn but to the grand prince of distant Muscovy.

Their apprehension over the growing threat from Islam was greatly enhanced following the crucially important Council of Florence, held in 1437-39. There the eastern part of the Christian Church pleaded with its western relative for support. During the lengthy deliberations, the Papal side stood firm in its demands that help would be rendered only on condition that the Eastern Church accept the supremacy of the Pope. In the end the Orthodox delegates saw no other way but to do so, and with this the Council was concluded.

When Moscow's representative to Florence, Metropolitan Isidore, returned home he was severely chastised for having agreed to the Council's decisions. Angered by the implied betrayal, the Muscovite Church decided not only to expel the Greek cleric, who became a Catholic in exile, but also to break with the remainder of Orthodoxy. At a Church Council in 1448, Isidore was replaced as Metropolitan by a native Russian.²⁴

Shortly afterwards, in 1453, Constantinople fell to the Ottoman forces anyway and with that event the history of Byzantium was brought to an end. The "Second Rome" had fallen. From the Muscovite perspective, this was unquestionable proof of God's disapproval of the Florentine union. Moscow thus was confirmed in its role as the last bastion of the true faith.

Already seized by religious frenzy, the Orthodox clergy now also were beginning to feel the weight of growing princely irritation over their tax exemptions. Following the annexation of Novgorod, Ivan the Great did not shy away from confiscating Church lands there, but he did stop short of extending that practice to other areas of the state. Warning, however, had been served of harder times ahead.

As a combined result of these developments, a number of representatives of the clergy were galvanized into action, in the form of appeals to the secular authorities. Their message was virulent, and it would have repercussions for centuries to come. Its real centerpiece was the famous theory of Moscow as the "Third Rome."

Exactly where this idea originally came from is not entirely clear, but it is commonly attributed to a monk from Pskov, by the name of Philoteus, who advanced it in a letter to Grand Prince Vasili III, in 1511. The most frequently cited lines read as follows: "Two Romes have fallen, a third stands and a fourth there shall not be..."²⁵

Given the subsequent importance of this theory to the development of Orthodoxy, we should note that the worldly powers were reluctant to even touch it. The reasons are straightforward, and as such also illustrative of the

23 Billington, *op. cit.*, p. 56.

24 *Ibid.*, p. 57.

25 *Ibid.*, p. 58.

real place of Muscovy. If Grand Prince Vasili III, or his son Ivan the Terrible, had accepted at face value their implied role as protectors of the true faith, they also would have accepted an obligation to liberate Constantinople, and that was a task for which Muscovy most certainly was not ready.

The clergy, however, would not be deterred. Increasing their efforts, they began producing false genealogies, showing that the rulers of Muscovy were related by blood to Caesar Augustus, and they produced fake accounts of how the imperial regalia of Byzantium actually had been successfully transferred to the Grand Prince of Muscovy, thus securing his legitimacy as a rightful heir to the throne of the "Second Rome." In all manners available, they sought to instill in the secular leadership a sense of responsibility as caretaker of the Church.

Irrespective of how the rulers may have received such messages, we know for a fact that it was incessantly preached in the churches and thus would have had an impact on the believers. Over time, vital parts also would be absorbed by the tsars.

The Patrimonial State

By the mid-seventeenth century Russia had essentially found its form. Despite many subsequent attempts at reform, this was the form that would be preserved – in all its fundamental respects – for more than two centuries. As we shall see below, it may even be argued that the very same form was preserved throughout the Soviet period and into the Yeltsin era. A closer investigation of its anatomy is thus warranted.

In his classic study *Russia under the Old Regime*, Pipes presents the very essence of this Muscovite system as a fusion of sovereignty and property rights. Comparing with a primitive family that is run by a paterfamilias, he argues that in this "patrimonial" state there can be no clear distinction between state and society. Similarly, there can be no formal limitations on political authority, nor rule of law, nor individual liberties. Where a despot violates his subjects' property rights, a patrimonial ruler will not even acknowledge their existence.²⁶

The more general implications of this argument relate to the ability, or indeed willingness, of the state to devise a set of enforceable and commonly accepted rules of the game. The relevance to economic policy, and to economic activity in general, lies in highlighting the different incentive effects that will be produced by simple commands, as distinct from accepted and credibly enforceable rules.

We may bring this point home by recalling the previously cited work by North and Thomas, *The Rise of the Western World*, where institutions were seen to emerge not only to support productive activity by economic agents. Via a process of learning they also evolved a set of norms that were supportive of a democratic system, the mainstay of that development being the evolution of a system of rule of law.

²⁶ Pipes, 1974, op. cit., p. 23.

The main problem with success stories of this kind is that the rule of law represents a collective good, with all the associated problems of production. Mancur Olson, the great pioneer of theories on collective action, sums it all up rather nicely: "So logic tells us that the collective good of law and order, like other collective goods, can never be obtained through voluntary collective action in really large groups."²⁷

This statement indicates where the real roots of the Russian predicament lie, namely in the path dependent absence in Russian tradition of a state that is willing, ready and able to shoulder the role as a legitimate guarantor of the basic rules of the game, and in the equally path dependent evolution of organizational responses and mental models that push economic actors in the direction of exploiting the opportunities for gain that are offered by the weak state.

Recognizing that the rule of law will not come about by itself, and that authoritarian rulers are unlikely to introduce it from above by decree, we must ask "why in Russia – unlike the rest of Europe to which Russia belongs by virtue of her location, race and religion – society has proven unable to impose on political authority any kind of effective restraints."²⁸

The main part of the answer will be linked to the role of "society" as such, of which there was little if any sign at all in the times of Muscovy. In sharp contrast to Novgorodian developments, the rulers of Muscovy presided over a full suppression of all urban or republican institutions, such as the old Kievan *veche*. Whether this was at the behest of the Mongols or by their own volition, we shall leave for others to debate. The crucial point is that the famed servility of the Muscovite service nobility emerged not due to repression, but as a set of self-enforcing institutions.

If we look merely at the process of Muscovite legislation, we find a clear reflection of how the rulers understood the role of the law. As summarized by Thomas Owen, "the various codes of laws issued from 1497 onward, indicated the vigor with which the tsarist bureaucracy sought to regiment society by means of statutory compulsion and restriction. The law functioned as an administrative device, not as a set of rules to be obeyed by state officials."²⁹

What we are seeing here is worlds apart not only from the success story told by North and Thomas. Comparing with the case of Novgorod, we may also recall what was said above, in more general terms, about princes and merchants and the pursuit of market-friendly economic policy. In fifteenth century Novgorod, city magistrates were directed by a judicial charter to "dispense equal justice to all, be he boyar, middle class burgher, or a lower rank burgher."³⁰

27 Mancur Olson, "Autocracy, Democracy and Prosperity," in: R.J. Zeckhauser, ed., *Strategy and Choice*, Cambridge (Mass.: MIT Press, 1991), p. 135.

28 Pipes, 1974, op. cit., p. xxi.

29 Thomas C. Owen, "Autocracy and the Rule of Law," in: Sachs, Jeffrey and Katarina Pistor, eds., *The Rule of Law and Economic Reform in Russia* (Boulder, Co.: Westview Press, 1998), pp. 24-25.

30 Richard Pipes, *Property and Freedom* (New York: Alfred A. Knopf, 1999), p. 172.

An important part of the background that was to produce the Muscovite view of the law, and the associated focus on commands rather than on enforceable rules and rights, rests in the powerful emphasis on resource extraction that marked its early rulers. Arriving in an inhospitable natural environment, being deprived of previous revenues from trade with Byzantium and forced into paying substantial tribute to the Mongols, it may not be so strange after all that the Muscovites would resort to a policy of extraction.

No matter what we choose to think about the reasons, it must be recognized that this institutional choice would have two important results. The first was concerned with the role of money, and the second with the emergence of a separate class of servitors with vested interests in the maintenance of the system.

Beginning with the role of money, we may recall how gains from trade in the Kievan period served to weaken the dependence of boyars on extracting tribute from the land. With the shift to Muscovy, and the collapse of trade with Byzantium, the princes no longer were able to remunerate their servitors in money. Instead, the old system of *kormlenie*, of awarding lands from which servitors were free to extract tribute, would become increasingly important. Widespread corruption would follow in its wake.

In the *Sudebnik*, the law code of 1497, we may find repeated injunctions against bribery and favoritism, which indicate awareness of the problem of corruption. At the same time, however, there is a conspicuous absence of sanctions against individuals found guilty of such offences, which indicates a lack of will to curb that source of income. In subsequent Russian development, these would become pandemic problems.³¹

The second problem, really a corollary to that of corruption, concerned the class of servitors that emerged to manage the affairs of the grand prince. Striving to replace the old system of more independent boyar-counselors, the rulers of Muscovy would create a new class of *dvoriane* (literally meaning "members of the princely household") who were personally dependent on the grand prince.

Their evolution of a separate ideology, and their successful ambitions of closing their ranks to outsiders, forms an illustration of a classic problem in institutional theory. To use an example that is favored by Douglass North, if the institutional matrix of a society favors piracy, then actors will invest in developing skills that make them better pirates. The new bureaucracy that emerged around the grand princes, and later the tsars, was to become one of the most important impediments to change in Russia.

Following North's institutional theory, the core message tells us that it is the informal systems of norms that provide legitimacy for the formal rules, and

31 For the sake of completeness, it might be added that in the following *Sudebnik*, of 1550, there was a clause on combating corruption. It would, however, not be very effective. While it might also be argued that Russia was not alone at the time in being riddled by corruption, over the coming centuries it would stand out as a particularly bad case, at least amongst the European nations.

that while the latter may be changed over night, the former will change only gradually, if at all. The conclusion is that any attempt at institutional change that departs too far from, or fails to alter, existing systems of norms will simply be bound to fail, or to produce powerful backlash effects.³²

It is in this context that the ideological ambitions of the Russian clergy take on such pivotal importance. Following the above-mentioned appointment, in 1448, of a native Russian as Metropolitan of the Church in Muscovy, the clerics began expounding a distinctly anti-Mongol message, the obvious purpose being to force the grand prince into assuming the title of tsar, and thus also the responsibility as protector of the Church.

While it is easy enough to put together an image of the output, it is considerably more difficult to say anything about how it was received. What we do know from surviving sources, however, is that the princes of Muscovy were almost obsessed with their claims to patrimony, to *votchina*. While the theory of a Third Rome may have been a bit wide of the mark, the legends about genealogy would thus appear to have fit hand in glove, serving to strengthen princely claims to the land as a whole.

By transcending the more traditional understanding of property rights, the notion of *votchina* had more to do with the self-image of the ruler. It thus formed an area where flattery by way of legends such as those described above would easily produce delusions of grandeur. By adjusting their own organizational strategies to this emerging ideology, the nobility actively contributed to reinforcing the patrimonial nature of the state.

It is symptomatic of this development that in contacts with Western courts Ivan III actually began referring to himself as *Gosudar' vseia Rusi*, which may be rendered as "Lord of all Rus." This he did even in relations to Poland-Lithuania, which still incorporated a good part of the territory of the former Kievan Rus. The first occasion of the latter was in 1494, when he insisted that a treaty of that year should include his elevated title.³³

Viewing himself as the sole remaining ruler in the world who at once was independent and Orthodox, he even began to style himself in a Church scriptory form, and to add to his title a list of geographical claims that served to define his Muscovite Empire. It would thus be: "Johannes, by the Mercy of God, Emperor of All Rus, and Grand Prince of Vladimir and Moscow and Novgorod and Pskov and Tver" and Perm' and Ugra and Bolgari and the rest."³⁴

As a final symbolic claim of legitimacy, from the end of the fifteenth century onwards the crest of the Byzantine double-headed eagle would be imprinted on all seals affixed by the Tsar of Moscow on his documents of state. This also was a time when the borders of the state were being closed and when xenophobia became widespread.

32 See, for example, his 1993 Nobel Prize lecture. (Douglass North, "Economic Performance Through Time," *American Economic Review* 84:3 (1995), p. 366.)

33 V.O. Kluchevsky, *A History of Russia*, Vol. 2 (London: J.M. Dent & Sons, 1912), pp. 20-21.

34 *Ibid.*, p. 21.

The efforts of the clerics to present the tsar as a protector of all Orthodox Christians reached a culmination of sorts in 1561, when a Church synod appended to its resolutions an epistle from the Patriarch of Constantinople acclaiming Ivan IV “emperor and seigneur (*Tsar’ i Gosudar’*) of Orthodox Christians in the entire universe.”³⁵

To Billington, this ideology translated into a form of behavior that was beyond any previous limits: “[H]is passion for absolute dominance over the ecclesiastical as well as civil sphere represented Caesaropapism in excess of anything in Byzantium, and has together with his cruelty and caprice led many to compare him with the Tatar khans, with whom he grappled so successfully in the early years of his reign.”³⁶

Rounding off the argument, we have seen the formal structures of autocracy emerge as rational responses to realities of the time, and we have seen the Orthodox clergy create an ideology to rationalize, legitimate and entrench that system. Before proceeding, we shall note that during the “time of troubles,” from 1598 until 1613, the whole construct almost came unraveled. The Muscovite state collapsed, and for some time it did appear that Muscovy would pass quietly into history, there to join a great number of other vanished European states. As if by some miracle, however, the Muscovites did manage to pull themselves together.

With the election of Mikhail Romanov, in 1613, they not only reconstituted their state. They even set it on a course that would lead to Empire and – eventually – to status as a global superpower. The key to their successes, however, rested in a reconstitution not only of the state but of the whole of Muscovite ideology, and of the power system that went with it.

By far the most important symbol of how the Romanovs succeeded in re-establishing the Muscovite system may be found in the collection of laws, the *Sobornoe ulozhenie*, which was enacted in 1649, under Tsar Alexei. Here we may find the main principles of both autocracy and serfdom laid out in great detail. These laws’ punitive character is reflected in the fact that the knout is mentioned in no less than 141 cases. This was not the rule *of* law. It was rule *by* law, which is something very different indeed.

FAILURES TO BREAK OUT

In the three centuries that Russia was ruled by the Romanovs, there would be a great many attempts made to break out of the mould that had been fashioned by the rulers of Muscovy. Great Tsars like Peter I, Catherine II and Alexander II would all be associated with programs of reform. Yet, as mentioned above, the outcomes of their efforts would be rather disappointing.

In a book with the telling title *The Agony of the Russian Idea*, Tim McDaniel sums up the overall impression of being locked in: “Reform in Russia: over the

³⁵ Pipes, 1974, op. cit., p. 73.

³⁶ Billington, op. cit., p. 67.

centuries it has always failed, sometimes to be replaced by a reactionary regime (Alexander III's reversal of Alexander II's 'great reforms' of the 1860s and 1870s), and sometimes culminating in the collapse of the system (1917 and 1991)."³⁷

Of all the reforming tsars, no one measures up to Peter the Great, the founder of the Russian Empire and the first Russian tsar to seriously seek a distinctly Western course for his country. Let us therefore begin by looking at his program, and then turn to see what his successors would make of his legacy.

Changes in the Rules

As a starting observation, we may note that during almost the entire time of Peter's rule Russia was at war. The war with Sweden in particular was one of great exhaustion. Against that background, it is not hard to accept that Peter's actions had as an important objective to strengthen the country's war-fighting capabilities.

In a narrow sense, the outcome was a great success. When Peter had himself crowned Emperor of all the Russias, in 1721, Sweden had been conclusively defeated. As a result, barring the Napoleonic wars, the Russian Empire no longer would have to wage constant battles for survival. In a broader sense, however, his achievements have also been associated with reforms that purportedly were designed to bring Russia into the family of European nations. This, we shall argue, represents an idealized view.

In the following, we shall question the assumed market liberalism of Peter's reform program and seek instead to present it as designed to create Russia's first true command economy, long before that notion would enter into common use. By far the most important component of this argument is his introduction, in 1722, of the "Table of Ranks." Representing a life-long, all-encompassing, streamlined obligation of service for all Russian males over the age of 15, this innovation brought the previous system of mandatory service to a high point of refinement.

The basic idea was to organize Russian society as a whole along the lines of service rather than blood. There were a total of 14 ranks, covering both the military and the civil service. Promotion from one rank to another was linked to performance, and hereditary nobility was awarded upon reaching the eighth rank. To Pipes, this was "one of the most important pieces of legislation in imperial Russia."³⁸

Peter's command approach to economic matters was reflected not only in the proliferation of state monopolies, and in the offering of special charters of rights and privileges for much-needed foreign specialists. Above all, he supported the building of industries, mainly military, by the allocation of serf labor.

37 Tim McDaniel, *The Agony of the Russian Idea* (Princeton, NJ: Princeton University Press, 1996), p. 174.

38 Pipes, 1974, op. cit., p. 124.

It was highly symptomatic of this general approach that the building of the new capital, St. Petersburg, proceeded by way of simply ordering prominent Moscow boyar families to move there, and to build houses and palaces according to prepared plans. Support from the state was provided via the annual allocation of thousands of serfs, many of whom perished on the way.

An important overall characteristic of Peter's rule was the creation of what Marc Raeff has called the "concept of the active, creative, goal-directed state."³⁹ Included in this concept was the introduction of a more rational and professional bureaucracy, which was copied from the Swedish college system and supported by the labor management system laid out in the Table of Ranks.

This basic principle of rationality, however, did not include market-friendly incentives or indeed any room for even considering private initiative or participation. On the contrary, this was the time when the Russian secret police was created, and when denunciation became an important instrument of exercising control over the subjects.

Turning now to look at the post-Petrine period, we shall note a process of gradual erosion of the patrimonial system. The growth of the empire had once and for all removed the constant threat of extinction by foreign invasion. Why then should the nobility accept the hardships of lifelong service? Or, indeed, why should the autocracy rely on the services of often incompetent noblemen, when a professional apparatus could be built to do the job?

This process of post-Petrine adjustment would proceed in two fairly distinct phases. The first, representing a curtailment and eventual removal of the nobility's formal service obligations, was begun already under Empress Anna, when service was limited to 25 years. In the brief reign of Peter III it was abolished altogether, and in 1785 Catherine the Great introduced her Charter of the Nobility, in which it was stated that a "noble will not be deprived of his property without due process of law."⁴⁰

The latter not only was the very first time that the notion of private property was introduced into the Russian language. It also marked the beginning of a slow and tortuous process of seeking to introduce in Russia a system of enforceable rules and rights. Being of German descent, and thus inclined towards law and order, Catherine had begun already in 1767 by calling a legislative commission that was to provide advice on the compilation of a new code of laws.

Although it failed to generate any concrete results, an intellectual process had been set in motion, which would be maintained throughout the remainder of tsardom. In 1809, Alexander I allowed Mikhail Speranski to present an ambitious proposal on how the autocracy might be reconciled with a separation of

39 Marc Raeff, "Imperial Russia: Peter I to Nicholas I," in: R. Auty and D. Obolensky, ed., *An Introduction to Russian History* (Cambridge: Cambridge University Press, 1976), p. 121.

40 Richard Pipes, "Was There Private Property in Muscovite Russia?," *Slavic Review* 53:2 (1994), p. 530.

powers, and in 1864 Alexander II introduced his rightly famous judiciary reforms.

Throughout this process, however, the autocracy consistently and tragically would prove its inability to accept any form of constitutional arrangement, preferring instead to rely on repression to contain the growing demands from below.

In the words of Owen, “the tsarist bureaucrats who refashioned Russian political institutions in the 1860s and 1870s carefully avoided imposing constitutional restraints on the autocratic state. The reforms thus demonstrated the government’s minimal accommodation to the principle of the rule of law.”⁴¹

Resilient Norms

At this point we shall return to what was said above about the failure of Russian society over the centuries to impose any form of restraints on political authority. To understand this failure, we must also understand the peculiar relations between state and society that grew out of Muscovite patrimonialism. As Pipes puts it, “The state neither grew out of the society, nor was imposed on it from above. Rather it grew up side by side with society and bit by bit swallowed it.”⁴²

This observation becomes all the more interesting if we add that it was under Peter the Great that the notion of separating the crown from the state began to take root. The tsar spoke of “the common good” and “the benefit of the whole nation,” and he actively sought to promote a sense of connection between private and public good. Increasing freedom of information was part of this, as was the new practice of attaching explanations to imperial decrees. In short, one might say that the tsar was trying to make citizens out of his subjects.

The outcome, which Pipes calls “the central tragedy of modern Russian politics,” was determined by an autocracy that failed to understand the implications of its own new venture: “It was clearly contradictory to appeal to the public sentiments of the Russian people and at the same time deny them any legal and political safeguards against the omnipotence of the state. A partnership in which one party held all the power and played by its own rules was obviously unworkable.”⁴³

Much of the reason behind this outcome may be found in the Petrine ambitions of breaking with the Byzantine past and introducing instead more rational forms of government. Raëff places particular emphasis on the above-mentioned introduction of the Swedish college system, arguing that throughout Peter’s regime these new agencies “created supposedly for the sake of greater efficiency, acted as a barrier between the ruler and the ruled. Communication

41 Owen, op. cit., p. 26.

42 Pipes, 1974, op. cit., p. 21.

43 Ibid., pp. 128-129.

and the passage of information between them were nearly impossible, and this led to mutual ignorance, suspicion, and eventually to a dramatic break."⁴⁴

The main agent of the subsequent violent reaction was an initially small group of enlightened members of the upper classes, which in the nineteenth century would swell and come to constitute the celebrated Russian intelligentsia. Perched on the fence between the autocracy and the provincial masses, they were angry young men seeking a mission for themselves but not being allowed to find one in the service of the state: "Unable to find a meaningful active role in Russian society, the members of the intelligentsia were finally driven into revolutionary action."⁴⁵

The strongly path-dependent reason for the exclusion from the sphere of public policy of these potentially supportive and progressive intellects was rooted in the historical role and self-image of the autocracy: "In the final analysis, the source of all authority and of all favors remained the arbitrary and unchallengeable personal power of the autocrat. Such a situation served to undermine the very *raison d'être* of legal and bureaucratic order. It also was the root of the failures of many attempts at fundamental political reform and the search for a *Rechtsstaat*."⁴⁶

Revealed Institutional Preference

Looking back at these processes, it is rather easy to arrive at Tim McDaniel's already mentioned impression of cyclical failures, or breakdowns. Approaching the matter from a more analytical point of view, we have a case of "revealed institutional preference."⁴⁷ The system is subjected to a number of attempts at introducing enforceable rules and rights, and it consistently responds by producing reversal.

Since the "system" as such is composed of rational actors, faced with repeated changes in rules and enforcement mechanisms, what we are looking for, more specifically, are dimensions of Russia's institutional matrix that serve to produce these consistent reversals. Essentially, this is the same as asking what is it that creates and sustains a path dependence that is based on inefficient institutions.

In North's formulation, there are two driving forces behind such a process. One relates to the formal rules in the payoff matrix: "The increasing returns characteristic of an initial set of institutions that provide disincentives to productive activity will create organizations and interest groups with a stake in the existing constraints."

The other emphasizes the emergence of informal norm systems: "The subjective mental constructs of the participants will evolve an ideology that not

44 Raeff, 1976, op. cit., pp. 129-130.

45 Ibid., p. 129.

46 Ibid., p. 130.

47 Stefan Hedlund, *Russia's 'Market' Economy: A Bad Case of Predatory Capitalism* (London: UCL Press, 1999), p. 270.

only rationalizes the society's structure but accounts for its poor performance. As a result the economy will evolve policies that reinforce the existing incentives and organizations."⁴⁸

Recalling also what was said above by North, about the dangers inherent in reforms seeking to introduce rules that are far removed from prevailing systems of norms, we may proceed to sum up the argument.

The basic component of the institutional lock-in that occurred in Muscovy was made up of rational responses to factors such as the harshness of nature, the cessation of trade and the imposition of Mongol tribute. Over time, the members of the new organizational structures evolved skills and vested interests that made the system highly resistant to change.

This bears on what was said above about the different incentive effects of commands and enforceable rules. Raeff presents as a paradox the fact that Peter's reforms, while resting on the need to elicit creative energy from the population, also failed to make meaningful room for such initiative. In his words, the failure of the service nobility to take private initiatives was no surprise, "since their one overriding concern was the immediate profit to be gained by winning the sovereign's favor and thereby securing bonuses for meritorious service."⁴⁹

What really served to make the lock-in so powerful, however, was not so much the formal rules and the resultant organizational responses, as the impact of the clergy on the informal norm systems. As Raeff puts it, "in Muscovy religion served both as a cultural underpinning of the regime and as a principle in terms of which Russia was able to define herself as a nation."⁵⁰

This new ideology would be long-lasting indeed, and it worked on two separate levels. Amongst the rulers it instilled the notion of autocracy and supreme rule that was unconstrained by law. As Count Benckendorff, chief of the dreaded "Third Section" under Nikolai I, once put it: "Laws are written for subordinates, not for the authorities."⁵¹

Amongst the remainder of the subjects it instilled acceptance of the system, and a sense of fatalism or even defeatism. Rather than rebel and demand rights, they were told to endure. The Russian notion of *terpenie* would eventually come to be seen as a national virtue, to be extolled by autocratic leaders up to the present day.

Given all that has been said and written recently about the importance of trust in building modern societies,⁵² we may conclude this section by noting

48 Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge, Mass.: Cambridge University Press, 1990), p. 99.

49 Marc Raeff, *Understanding Imperial Russia: State and Society in the Old Regime* (New York: Columbia University Press, 1984), pp. 67-68.

50 *Ibid.*, p. 2.

51 Pipes, 1974, *op. cit.*, p. 290.

52 Francis Fukuyama, *Trust The Social Virtues and the Creation of Prosperity* (New York: The Free Press, 1995).

that the real core of “revealed institutional preference” rests in the dimension of *distrust*. The consistent refusal by the autocracy to grant rights reflected its failure to achieve credible commitment, which in turn led to the preservation of path dependence in the mental models.

BACK TO MUSCOVY

As we have repeatedly mentioned above, path dependence is fundamentally different from sheer determinism. The simple fact that the great Russian reformers, from Catherine II to Alexander II, failed to break out of the Muscovite mold thus should not be taken as a predetermined outcome. On the contrary, a fairly solid case can be made to show that their attempted reforms brought about such changes in both rules and informal norms that the old system was being pushed toward its breaking point.

By the early twentieth century, it really did look as though Russia was finally on its way to joining the rest of Europe. The economic policies of Sergei Witte, in the last decade of the nineteenth century, had led to a broad economic upswing, including a stable currency and international creditworthiness. Following “Bloody Sunday” in 1905, moreover, Tsar Nicholas II was persuaded to accept such fundamental constitutional changes that the Russian Empire essentially was on its way towards democratic institution-building.

Had it not been for the outbreak of the Great War and the subsequent “Great October Revolution” of the Bolsheviks, might Russia then have been pointed firmly in the direction of joining the family of other European nations? While no conclusive answer to that question can ever be given, simply posing it will add to our understanding of the preconditions for successful institutional change.

Reforms that could have been?

It has been fairly commonly accepted that the assassination of Alexander II, in 1881, also brought an effective end to the period of reforms. There is certainly truth in that view. The “Great Reaction” that set in under Alexander III would bring much repression and a great many reversals. Still, before we can pass a final verdict on the real impact of the reforms, we also must recognize that behind the dark façade there were a number of other ongoing processes, which represented a continuation of reform.

As perhaps the most important item on this list we should note the growing demands for legality and constitutionalism that were spreading both amongst the intelligentsia and throughout parts of the policy establishment. Spurred by the judicial reform of 1864, important sections of Russian society had begun to readjust their organizational strategies, and thus to acquire vested interests in further legal reforms.

Spearheading this movement was Count Loris-Melikov, who by 1880 had managed to win support from Alexander II for a restart of the Great Reforms of

the early 1860s. Regrettably for him and his associates, and even more so for Russia, only days before his program was to have been accepted at a meeting of the Council of Ministers, the “tsar-liberator” was assassinated. If the timing of that deed had been delayed, and further reforms could have been formally enacted, the subsequent reaction would have been all that much more difficult to orchestrate.

As it was, the following decades would show that the autocracy and its governments became increasingly isolated, finding it ever harder to win broad support for repressive policies. Given our previous argument, that the autocracy had been maintained not by repression alone but more so by supportive self-enforcing institutions amongst the nobility, mental transformations in the direction of legality, impersonal rule and impartial enforcement, must be taken as serious processes of erosion of the very system of autocracy.

Another positive trend, in the direction of market economy and sustainable economic growth, may be found in the trend towards increasing financial sophistication that was also begun under Alexander II, with the introduction of a state bank and a unified state budgeting system. Under the subsequent leadership of I.A. Vyshnegradskii, as minister of finance, Russia’s financial position was improved to such an extent that the scene was set for the spectacular economic boom that is normally associated with Vyshnegradskii’s successor, Sergei Witte. In the 1890s, Russia outperformed all the other industrialized nations, and by the turn of the century the ruble was made fully convertible.

In the first decade and a half of the twentieth century there followed not only experiments with an elected State Duma, later to be known as the “democratic parenthesis,” but also sweeping agrarian reform, under the leadership of Petr Stolypin.

The fact that we know how it all would end does tend to obscure the importance of these various processes, above all so in the sense of making it seem futile to investigate *why* they failed. What our institutional approach would bring out, however, is the competition that was under way between the improving performance of the economy and the slow process of transforming social norms.

If the process of economic improvement could have succeeded in providing tangible benefits for broad sections of the population it would have won broad-based support and thus perhaps also have achieved sustainability. Part of the obstacle rested in the fact that while the costs, in terms of resource extraction needed to fuel industrialization, were short-term, benefits could only be longer-term.

More important, from our perspective, was the fact that important groups of actors in the economy, such as merchants and industrialists, failed to respond properly to the increasingly market-friendly incentives that were provided from above. This failure was path dependent in two senses. One was the lack of education and of organizational structures to support an economic upswing, the other a prevalence of distinctly anti-capitalist attitudes and business prac-

tices. While the former would certainly have been possible to overcome with proper policy, the latter could only have been rectified via an extended process of pressure from above.

Adding that the population still was overwhelmingly rural, and that the bulk of the peasantry was still moored in their old mentality, we have further support for viewing the potential fate of the process as a whole as a race against time, where even temporary setbacks would serve to dilute the willingness of important groups to alter their strategies and to transform their mental models.

In the long run it certainly would have succeeded, but in that long run, as Keynes once reminded us, we are all dead. Internal contradictions within the process itself probably added more to its eventual fate than did the march towards war and revolution. With this we shall have to let the matter rest. Perhaps the “democratic parenthesis” really could have led to a more fundamental institutional transformation. Perhaps it was doomed to be short-lived regardless?

What we do know is that Russia’s twentieth century would be marked not by advances towards democracy, market economy and the rule of law, but rather by the imposition of a new – outwardly utopian – order. Following our previous line of argument, it will be argued here that once all the outer trimmings of Marxism-Leninism have been removed, we really are looking at a striking return to old Muscovy, and thus at yet another case of revealed institutional preference.

The Bolsheviks in Power

In mapping out the Bolshevik program, we shall follow a model laid out by János Kornai, in his classic text on the socialist economic system. Based on a genetic analogy, his approach is to argue that once a couple of fundamental steps have been taken, the rest of the program will simply proceed to install itself. Those crucial first two steps are the introduction of a monopoly on power and of an ideology to rationalize that power. Taken together, these are said to represent “the body and soul” of the system.⁵³

The first steps that the Bolsheviks took, in the midst of hyperinflation and other serious consequences of a raging civil war, were clearly representative of this model. Having established a monopoly on power, and introduced the cult of Lenin, they proceeded to root out the very notion of private property. To Kornai, that step follows logically, in order to prevent challenges from the private sphere to the monopoly on power.

Following his argument, the suppression of private property, and thus of market exchange, leads to the establishment of a set of “mechanisms of coordination,” whereby the bureaucracy assumes the role of Adam Smith’s “invisible hand.” Being deprived of ownership and of the very notion of costs, actors within this new system will then proceed to engage in a competition for resources that produces an insatiable “quantity drive.”

53 János Kornai, *The Socialist Economic System: The Political Economy of Communism* (Oxford: Clarendon Press, 1992).

While there is much to be said for the technical analysis of soft budget constraints and other peculiarities that emerged as consequences of this creation of a socialist economic system, we shall argue that its fundamental traits have such similarities with old Muscovy that this in no way can be presented as a utopian or even forward-looking order. As mentioned above, we shall view it instead as a case of revealed institutional preference, of old institutional structures that reasserted themselves at the vast expense of all those attempted reforms that had marked the post-Petrine era.

By far the most important component of the monopolization of power, and of the subsequent introduction of command methods, was the reintroduction of a broad service obligation. The famed Soviet *nomenklatura* not only represented an effective continuation of the Petrine Table of Ranks. The wide discretion it allowed for sundry potentates to feather their own nests, within a largely demonetized system, was also eerily reminiscent of the old system of *kormlenie*.

Needless to say, the program also featured a reintroduction of the police state, complete with camps, denunciations, sealed borders and domestic passports to prevent free movement. All of this was rationalized by a totalitarian ideology resting on the notion of "Soviet legality," which would form the very antithesis of the rule of law.

Nor did the pervasive role of the Soviet state, as *de facto* owner of all productive resources and thus the only available engine of growth, really represent anything new. Its insistence on foreign trade monopolies, its arbitrary treatment of domestic entrepreneurs, its reliance on non-monetary penalties and rewards, and its practice of forced allocation of both labor and other resources to favored projects, all must seem very familiar to readers of this paper.

Equally familiar was the Soviet obsession with economic growth. Resting, as before, on forced extraction of resources that were channeled into supporting its war-fighting capability, it again was rationalized as necessary to safeguard the nation against pending onslaughts by external enemies. The xenophobia that marked the Stalin years in particular represents a striking rerun of the early sixteenth century, when the Muscovite model was being built behind closed borders.

Perhaps most striking of all, however, was the way in which the Communist Party consciously cast itself in the role of the Orthodox Church, portraying Lenin as a saint and a martyr and displaying traditional icon processions in Red Square. The metaphysical nature of the power system it evolved was to form the very antithesis to a rules-based system of division of powers. The only real difference was found in the Party's way of laying claims to worldly power, something that had always been alien to the real Church.

Summing up, we may say that the Soviet system's ultimate rationale was to build sufficient military power to keep the rulers safe from external enemies, and to develop sufficient mechanisms of internal repression to keep them safe from domestic enemies.

The suppression of all movement towards an independent judiciary returned the autocracy to its familiar position of being suspended above the law. The absence of both labor and capital markets, and the near-total suppression of money – all in a market economy understanding of those terms – recreated a situation where the service nobility was integrated into a hierarchy of dependence, and the pervasive role of Party discipline, backed by an equally pervasive practice of denunciation, forced all subjects who wanted to rise within the hierarchy to evolve mental models to rationalize their effective submission. The service nobility thus again was maintained by a set of self-enforcing institutions, and the population at large was reduced to the practice of *terpenie*.

As had been the case in old Muscovy, however, this was not a system that was capable of generating initiative that could produce sustainable economic growth. As forced exactions from above took their toll, it grew increasingly weaker, and in the end it collapsed, just as its Muscovite predecessor had done.

Perhaps the most important of all questions that loom over Russia's post-Soviet reconstruction is whether it will represent another Romanov-style reconstruction of the old system, or whether it will return to the processes of the Great Reforms that were interrupted by the Great War and the Bolsheviks.

CAN THEY FIX IT?

Before proceeding to look for an answer to this question, which is also asked in the title of this article, we shall first have to sum up some of the points that have been made thus far. In the above we have shown that Muscovy was forced by adverse circumstances into building an institutional structure that set it aside from other European states of the time, and that over time the Muscovites evolved a set of informal norms that made the formal dimensions of that system highly resistant to change.

We have seen how the era of Peter the Great in many respects could be interpreted as the apogee of the patrimonial system, and how the post-Petrine era came to represent a gradual albeit inconclusive erosion of that system. With the institutional approach of path dependency we have sought to indicate in which dimensions of the institutional matrix the most formidable obstacles to change may be found.

Perhaps the most important and also the most controversial message has been to show that in the final decades of the nineteenth century crucially important processes of change were under way, processes that were abruptly halted and effectively suppressed by the establishment of the Soviet system, an event that effectively returned Russia to its Muscovite form.

Now that more than a decade has passed since that system in its turn collapsed, we may take stock also of the Yeltsin era, and conclude that it – regrettably – did not represent the answer that we are looking for. Although the neoliberal market ideology that was pronounced by the “young reform economists” did serve for some time to lure many outside observers into unwarranted opti-

mism, the verdict today must be fairly clear. Simply put, shock therapy and instant deregulation was a recipe for even more trouble.⁵⁴

Under the Yeltsin regime, many of the familiar old problems yet again came to the fore. The presidency in particular increasingly viewed itself as an autocracy suspended above the law, and the infamous oligarchs were placed on *kormlenie*, being implicitly allowed to help themselves to the property of the state. Much like the *pomestii* of old Muscovy, oil companies and other lucrative assets were handed out to loyal boyars.

Yeltsin's Russia certainly was not a perfect replica of Muscovy. It lacked many of the repressive policies and above all the xenophobic attitude to the West that have been so prominent in our preceding account. In the realm of economic policy, however, there can be little doubt that Yeltsin's shock therapy did more damage than even Gorbachev's *katastroika*.

So, what does all of this tell us about the prospects for success under the sober guidance of Vladimir Putin? Shall it really have to be the case that it took a man from the lower echelons of the KGB to bring order to Russia? And what would that mean for the other dimensions of the institutional matrix, such as civil liberties and accountable government? Can the men who have gathered around Putin really go back and finally fix the problems that for so long have served to lock Russia into persistent economic underperformance?

From what has been said above, it should be obvious that a working solution can be found only if the country's rulers manage to achieve a credible commitment to upholding a system of enforceable rules and rights. Our previous brief allusions to the experiences of Venice and Genoa, as well as the example of Novgorod would support that conclusion. Knowing what is broken does not, however, always imply that we also know how to fix it.

If the problem is viewed simply as one of public policy, North will readily tell us that our theoretical basis for making serious policy recommendations is quite insufficient: "Third party enforcement means the development of the state as a coercive force able to monitor property rights and enforce contracts effectively, but no one at this stage in our knowledge knows how to create such an entity."⁵⁵

Although the prospects may thus look bleak, it must be realized that problems once created by man surely must be possible to solve by man. Perhaps we might find some help by approaching the problem from the direction indicated in Olson's classic comparison between the "narrow" and "encompassing" interests that mark, respectively, roving and stationary banditry.⁵⁶

Lacking security of tenure, the roving bandit will have a short time horizon and a narrow interest in maximum extraction. As he becomes stationary and acquires more security he will, however, also experience an encompassing need to optimize extraction over time, i.e. he will realize that by taking too much today he will have less to extract tomorrow.

54 See further Hedlund, 1999, op. cit., part III.

55 North, 1990, op. cit., p. 59.

56 Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1982).

With the passage of time, all stationary bandits, and all autocracies, will arrive at a point where they have to choose in which way to proceed. In one direction lies continued kleptocracy, which in the end will lead to systemic collapse. Haiti under Duvalier would be a good illustration. In the other lies the virtuous path of market-friendly institutional change and the provision of market-enhancing public goods, both of which will lead to expanding production possibilities and thus to a broadening tax base.

At the top of the list of public goods we will find enforceable property rights. Breaking out of the bad equilibrium will require a transformation of such maximizing strategies that have been based on rent seeking and other forms of unproductive activities; and this will not happen unless actors can be convinced that they will be allowed to retain earnings from productive activities.

As Pipes points out, citing Jeremy Bentham to good effect, this right to the fruits of your own labor has fundamental implications for the law as such: "Property and the law are born together and must die together."⁵⁷ Similarly, Olson underlines that property can be defined only in relation to a government that is ready and able to enforce that right: "Though individuals may have possessions without government, the way a dog possesses a bone, there is no private property without government. Property is a socially protected claim on an asset – a bundle of rights enforceable in courts backed by the coercive power of government."⁵⁸

So, what it all really comes down to is to ask whether the current government of Russia is indeed ready and able to shoulder that responsibility. To North, it is a question either of hoping for a "good" government or of putting into place some credible constraints: "Establishing a credible commitment to secure property rights over time requires a ruler who exercises forbearance and restraint in using coercive force, or the shackling of the ruler's power to prevent arbitrary seizure of assets."⁵⁹

As Barry Weingast puts it, however, this desirable shackling of the ruler's power requires not only "institutions that limit and define the legitimate boundaries of state action." To be successful, it will also require a "set of shared beliefs among citizens who react against the state when the latter attempts to transgress the boundaries defined by those institutions."⁶⁰

What this underscores is that there can be no quick fix. In the short term it is hard indeed to see either a Putin government that is ready to "exercise forbearance and restraint," or a political movement that will even seek to bind the government into upholding the law and cracking down hard on the practices of "crony capitalism."

57 Richard Pipes, "Russia's Past, Russia's Future," *Commentary* (June, 1996), p. 37.

58 Mancur Olson, "Why the Transition from Communism is so Difficult," *Eastern Economic Journal* 21:4 (1995), p. 458.

59 Douglass C. North, "Institutions," *Journal of Economic Perspectives* 5:1 (1991), p. 101.

60 Barry R. Weingast, "Constitutions as Governance Structures: the political Foundations of Secure markets," *Journal of Institutional and Theoretical Economics* 149:1 (1993), p. 305.

The prospects for Putin's Russia thus remain regrettably gloomy: a continued centralization of power and a renewed emphasis on shock methods, with the law being used as an instrument in the hands of power, and a shrinking and sickly population that again retreats into *terpenie*.

In a longer-term perspective, however, there is much to be hoped from the mental transformations that are currently under way, as was the case under Witte and Stolypin a century ago. Above all, we may note that the introduction of property rights has already caused an important shift in moneymaking strategies. Over time this may be expected also to produce demands from the holders of such rights for better government.

It is certainly true that the way in which privatization was carried out under Yeltsin did considerable damage to such prospects, but given that a total re-suppression of property rights seems extremely unlikely, it must follow that a healthy process has been set in motion.

The substantial improvements in corporate governance that have marked some sections of the Russian business elite illustrate that a change in the external environment (mainly pressure from outside investors) has succeeded in bringing about a rearrangement of organizational strategies. If this can be maintained, it eventually also will lead to healthy mental transformations.

The macroeconomic stability that has followed in the wake of the Yeltsin regime's constant budget battles with the legislature recall the optimism that was created under Vyshnegradskii and Witte. If sufficient time can pass without further abrogations or indeed the tank shelling of the State Duma, the prospects for resurrecting old-style autocracy will be correspondingly diminished.

In the longer term, one also may expect that the first steps towards serious land reform that are currently being taken will result in substantial improvement of by far the most problematic of all sectors in the Russian economy.

While all of these do represent fundamental transformations that hold out hope for the longer term, we must end by cautioning that any long-term process, no matter how positive, will always be under constant threat from short-term reversals. The end that befell the Witte and Stolypin reforms must not be forgotten.

Although it is hard indeed to envision another Great War or another October Revolution, there is no shortage of other domestic problems that may arise to cause reversals and a return to old-style methods. While path dependency in organizational strategies may indeed be broken by contingencies in the short term, that which resides in mental models will take much longer to readjust.

There will thus rest a heavy responsibility not only on the Putin government, but on several successive Russian governments. If the pressure for positive change cannot be maintained, then we may be fairly certain that old path dependencies will again reassert themselves, thus completing yet another cycle of reform and reversal for future historians to analyze.