Department of East European Studies
Uppsala University

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Resurrecting a Russian Service State

Stefan Hedlund
Department of East European Studies
Uppsala University

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Resurrecting a Russian Service State

A decade and a half after the collapse of the Soviet order, debates over the future course of Russia still remain to be settled. While many remain convinced of eventual success, it is clearly the case that early beliefs in a rapid and successful transition to democracy, market economy and the rule of law have lost much of their previous glitter. As former vassal states have raced ahead and proven themselves worthy of membership in the European Union, it has become increasingly unclear where Russia herself might be headed. The labeling game that surrounds debates about how the country should best be described reveals a rather disturbing fact. Behind the greasy façade of a spectacular oil boom lurks a novel societal contraption that somehow seems to defy description.

To a casual observer, the image-making is bewildering indeed. While political scientists focus on “democratic backsliding,” and legal scholars shake their heads at the sorry state of the legal system, economists remain insistent that a market economy (of sorts) has been built. As experts in the game of Russia-watching remain in heated disagreement over whether “transition” has been a success or a failure, and even over whether there is still movement (in any direction), non-experts may be forgiven if they come to wonder about the possible existence of multiples Russias – some successful, others total disasters.

One may certainly argue that this is nothing novel as such, that Russia-watching has always been laced with powerful streaks of the mystical, transcending and defying portrayal in categories that are commonly used in discussing normal societies. It is rather striking, for example, that we may still see references being made both to Winston Churchill’s classic quip about Russia as a “riddle, wrapped in a mystery, inside an enigma,” and to Fyodor Tyutchev’s equally classic nineteenth century poetry: “With the mind alone, Russia cannot be understood. No ordinary yardstick spans her greatness. She stands alone, unique – In Russia one can only believe.”¹

¹ Translated by Billington, James H. (1970), *The Icon and the Axe: An Interpretive History of Russian Culture*, New York: Vintage, p. 320.

Exactly what it is that keeps drawing so many into existential brooding over the nature of Russia will have to be left for others to ponder. The problem as such, however, lies not only in the price that will have to be paid for sinking into typically Russian arguments over whether the bottle is half-full or half-empty. There lies equal or perhaps even greater danger in the counter-reaction of assuming out of existence all traits of Russian specificity, or to maintain that culture simply does not matter. A prominent illustration of the latter may be found in the recent controversy over whether Russia may now in some sense be seen as a “normal” country.²

In the following, we shall approach the matter from an entirely different perspective. We shall dispense with mysticism, and we shall argue that Russia may indeed be viewed as “normal” – given that normality is understood here not according to normative Western yardsticks, but according to the intrinsic logic of the country’s own long-term development.

We shall begin by presenting the formation, in old Muscovy, of an institutional matrix that was highly rational at the time. We shall outline how the “age of reform” that followed after the death of Peter the Great did seek in many different ways to break out of the Muscovite mold, but failed to do so. Somewhat controversially, perhaps, we shall then argue that the Soviet order represented not a utopian new order but rather a Muscovite “normalization,” in the sense of an eradication of all traces of such attempted Westernization that had marked the last quarter-century before 1917.

In conclusion, we shall view the Yeltsin-era hyperdepression as yet another “time of troubles,” and we shall hold up the recovery that has taken place under Putin as a firm institutional choice in favor of yet another resurrection of the old Muscovite service state. In support of the latter argument, we shall also present a brief outline of what it would take for Russia to finally embrace true Westernization, including a long-desired catching up with the West. First, however, we shall set the stage, by approaching the highly controversial matter of Russian specificity.

A Russian *Sonderweg*?

² Shleifer, Andrei and Daniel Treisman (2004), “A Normal Country,” *Foreign Affairs*, vol. 83, pp. 20-38, and Shleifer, Andrei (2005), *A Normal Country: Russia After Communism*, Cambridge MA: Harvard University Press. The counter-argument is formulated in Rosefielde, Steven (2005), “Russia: An Abnormal Country,” *The European Journal of Comparative Economics*, vol. 2, no. 1, pp. 3-16.

One of the most striking aspects of Russian history is that there was nothing in the cards to suggest that the early Russians would be *able* to build a centralized state, far less a superpower that for a few recent decades would even have global reach and awesome military might. Richard Pipes sums it up as follows: “On the face of it, nature intended Russia to be a decentralized country formed of a multitude of self-contained and self-governing communities. Everything here militates against statehood: the poverty of the soil, remoteness from the main routes of international trade, the sparsity and mobility of the population.”³

If we accept that the eventual formation of a mighty Russian Empire did represent a tremendous achievement, overcoming seemingly insurmountable obstacles, it follows that we shall also have to look for a key to unlocking the secrets of that achievement. The first step in this process will be to recognize that what we know today as “Russian history” represents no preset destiny but merely one of several potential trajectories. While this is certainly true of all countries and all civilizations, in the Russian case there are somewhat better reasons to engage in a bit of counterfactual speculation. The main reason lies in the fact that what *did* come about arose out of a set of highly special circumstances, which served to provide the solution with a set of equally special characteristics.

Most if not all books on Russian history will hold up the harshness of nature and the adoption of Orthodox Christianity as important causes that produced subsequent Russian specificity. While both of these did provide early formative influences that were clearly important, they cannot tell the full story. To put it simply, while they may have been necessary they were not also sufficient for a Russian *Sonderweg* to emerge. A third ingredient would be necessary, to which we shall return momentarily.

First, we must note that the point about the harshness of nature applies mainly to the Volga-Oka basin in the cold and distant north. Viewed from this angle alone, the Eastern Slavs who settled and built Kievan Rus had everything going for them. The climate was favorable and trade with the Byzantines yielded massive riches. For a couple of enchanted centuries, Kiev was the bustling center of a thriving civilization.⁴ If only the Mongols had not

³ Pipes, Richard (1974), *Russia under the Old Regime*, New York: Charles Scribner’s Sons, p. 19. Edward Keenan exhibits similar surprise: “Indeed when one considers the tasks and conditions that faced the early Muscovite political system, he must wonder that any effective state was organized on this territory at all, least of all a great empire...” (Keenan, Edward (1986), “Muscovite Political Folkways,” *Russian Review*, vol. 45, no. 2, p. 130.)

⁴ By the time when Grand Prince Oleg is presumed to have died, in 912, Kiev had already risen to become one of the largest cities in Europe. For about a century more it would remain a great power. According to some, its rapidly growing splendor and wealth placed it on equal footing even with Byzantium. (Blum, Jerome (1964), *Lord and Peasant in Russia: From the Ninth to the Nineteenth Century*, New York: Atheneum, p. 15, quotes several contemporary sources to this effect, notably so Adam of Bremen (d. 1076) who wrote that it rivaled Constantinople.)

arrived, and proceeded to raze the city to the ground, Kiev might have remained the metropolis of a Russian civilization with firm commercial and cultural links to Central Europe. It might perhaps even have followed the example of Lithuania, and been converted to Catholicism!

In a similar vein, while those who proceeded to build the colonial trading empire that would refer to itself as “Lord Great Novgorod” (*Gospodin Velikii Novgorod*) were less favored by climate, they did benefit tremendously from trade with the Hanseatic League and they adjusted their activities accordingly.⁵ If only the Muscovites had not arrived, and proceeded to utterly destroy both the city and its achievements, Novgorod might have remained as the center of a Russian civilization which in this case would have been firmly anchored in the northern cultures of the Baltic.

One should certainly be wary of making too much out of such speculation. A commercially successful Novgorod would, for example, also have remained an Orthodox Novgorod, and that most likely would have preserved important barriers against the West. What is important in both cases is that commerce was the main driving force behind institution building. Both the Kievans and their brethren in “younger brother” Novgorod were early examples of what Adam Smith would subsequently and famously depict as a certain propensity in human nature “to truck, barter, and exchange one thing for another.” Architectural and archeological evidence abounds to suggest that an institutional structure was successfully built to support such commercial ambitions.⁶

The early Muscovites were much less fortunate. Scattered throughout deep, dark and generally unfriendly forests, far removed from the bright commercial and cultural lights of both Kiev and Novgorod, they had to wage constant struggles for survival. Dangers were abundant, ranging from forest fires and wild animals to constant risks of famine and of devastating raids by vicious neighboring tribes. In much of Russian historiography, the narrative tends to be dominated by lament over the plight of these unfortunate souls, and by surprise over their achievements. Edward Keenan, for example, finds that “the culture that they developed in this new home generated a combination of agricultural, social, and political

⁵ The example of Novgorod is important in the sense that it granted its citizens, including women, not only rights to property but also individual rights in a more general perspective. On the latter count, Richard Pipes even goes so far as to say that “the city-state of Novgorod, which at its height in the fourteenth and fifteenth centuries encompassed most of Northern Russia, granted its citizens rights which equaled and in some respects even surpassed those enjoyed by contemporary Western Europeans.” (Pipes, Richard (1999), *Property and Freedom*, New York: Alfred A. Knopf, p. 160.)

⁶ The role of Novgorod as a potential alternative successor state to Kievan Rus, vitally different from that of Muscovy, is explored further in Hedlund, 2005, op. cit., ch. 3.

adaptive techniques, based upon a cautious, non-innovative, but tenacious subsistence agriculture, the principal incremental product of which seems to have been more Slavs.”⁷

While it does elicit a great deal of sympathy, this approach stops short of explaining how early choices may influence subsequent policy making even over long periods of time, i.e. how the early choice may become *path dependent*.⁸ By noting the abundance of early difficulties, we may succeed in explaining how and why Russia got off on a different track than did the rest of Europe, but we will still have to explain what followed and why.

There can be no questioning that the objective conditions that determined the direction of state building amongst the early Russians were fundamentally different from those that faced other Europeans. Any standard text on world or European history, such as William McNeill’s *The Rise of the West*,⁹ will readily tell us that conditions on Europe’s eastern frontier, not the least under the Mongol onslaught, were such that the Muscovites simply had to develop an institutional structure that was radically different.

What is clearly left hanging, and has served to attract much subsequent controversy, is precisely the question of what happened then, and why. Was it only the case that Russia got off to a bad start, and that subsequent developments would follow a path similar to that of the other Europeans, only with a lag? Or should we conclude that the early difficulties contributed so powerfully to Russian specificity that the country would remain different from the rest of Europe well into the modern era, and perhaps even into our times?

The foremost proponent of the “lag theory” is Martin Malia, whose major work *Russia under Western Eyes: From the Bronze Horseman to the Lenin Mausoleum*, holds up the image of a Russia that is in steady pursuit of Europe, being no more than 50 years behind.¹⁰ In his book, it is “Soviet Russia that represents both maximal divergence from European norms and the great aberration in Russia’s own development.”¹¹

It might be tempting to view this as an eminently testable proposition. If it is correct, now that the Soviet system is gone, and the Russian economy is growing, we should be able to conclude that Russia is finally back on track towards full integration in the West, which at present does seem a bit unlikely. Such a test, however, would not be entirely fair, for the very

⁷ Keenan, op. cit., p. 122.

⁸ This approach is laid out in great detail in Hedlund, Stefan (2005), *Russian Path Dependence*, London: Routledge.

⁹ McNeill, William H. (1963) *The Rise of the West: A History of the Human Community*, Chicago: The University of Chicago Press.

¹⁰ His “fifty-year rule” suggests that beginning with Peter the Great, and compared to the big powers in Europe, vital Russian transformations occurred with a lag of half a century,. (Malia, Martin (1999), *Russia under Western Eyes: From the Bronze Horseman to the Lenin Mausoleum*, Cambridge, MA: Belknap, pp. 418-19.)

¹¹ Ibid., p. 12.

simple reason that Malia is interested in a “revolutionary transition” from the age of the *Ancien Régime* to the “millennial order” of our “dynamic modernity.” This represents a major cultural shift, which seems hard indeed to pinpoint: “In fact, the economic dimension of the process is the one least relevant to deciding modern Russia’s fate: ideology has been much more crucial.”¹² Given that our focus is aimed at institutional change from a predominantly economic perspective, we shall have to leave the matter be.

The opposing side, sometimes referred to as a “continuity theory,” is associated mainly with scholars like Keenan and Pipes.¹³ As an illustration, we may note that in the midst of Boris Yeltsin’s much-vaunted attempts at transforming Russia into what he liked to call a “normal society,” Pipes could find much of the old still remaining in place: “The sense of isolation and uniqueness bequeathed by Orthodox Christianity unfortunately survives. Present-day Russians feel themselves to be outsiders, a nation *sui generis*, belonging neither to Europe nor Asia.”¹⁴

What needs to be added here, for us to produce a continuity theory that captures vital institutional change, is the third of the three formative influences that were referred to above as being jointly both necessary and sufficient. This addition shall come in the form of severe threats to national security.

While other Europeans could proceed with their state-building behind natural boundaries and/or with stable neighbors, the Eastern Slavs would have to contend with an eastern frontier that was being constantly harassed by marauding bands of nomadic peoples of the steppe. The reason why relations between the sedentary Slavs and their nomadic neighbors would become so troubled is viewed by Geoffrey Hosking as “crucial to the history of Eurasia.” Since the nomads had little to offer in trade, which the Slavs could not produce for themselves, the relation was destined to be marked by conflict: “Only by honing their military skills and raiding adjacent civilizations could pastoral nomads provide properly for their own way of life.”¹⁵

Faced with constant raids that resulted not only in destruction but also in large numbers of Slavs being carried off as slaves, the logical response was to expand into the steppe. Thus began the early Russian colonization of the east, via lines of fortified cities from which punitive counter-raids could be launched against the nomadic enemy.

¹² Ibid., pp. 13-14.

¹³ In this category we may also find Poe, Marshall T. (2003), *The Russian Moment in World History*, Princeton, NJ: Princeton University Press.

¹⁴ Pipes, Richard (1996), “Russia’s Past, Russia’s Future,” *Commentary*, June, p. 35.

¹⁵ Hosking, Geoffrey (2001), *Russia and the Russians: A History from Rus to the Russian Federation*, Harmondsworth: The Penguin Press, p. 2.

Writing about the consequences of these struggles for “protective” expansion, V.O. Kluchevsky, the dean of Russian historians, comes close to sentimentalizing: “Every year during the sixteenth century thousands of the frontier population laid down their lives for their country, while tens of thousands of Moscow’s best warriors were dispatched southwards to guard the inhabitants of the more central provinces from pillage and enslavement.”¹⁶ According to other calculations, in the sixteenth through the eighteenth centuries, around half of all available armed manpower had to be sent south to guard the steadily expanding steppe frontier,¹⁷ thus draining not only the fiscal but also the labor resources of the state.

With the addition of this imperative need to constantly mobilize resources for national defense, we have arrived at a set of conditions that were both necessary and sufficient for the Muscovite institutional matrix to emerge. We may think in three steps. The first is that the model has a clear objective, namely that of forced resource extraction. Secondly, it faces an equally clear constraint, in the form of severe poverty. Thirdly, it features a role of the Orthodox Church as a provider of ideology and an incubator for xenophobia. Since the latter would serve as an excellent rationalization for demanding major sacrifices, in terms of giving up resources for defense, the model is neatly knit together. As many observers have pointed out, it also performed quite successfully.

Noting, for example, that the grand princes, supported by a tiny boyar elite, were faced from the very beginning with “the unenviable task of knitting together an expansive, poor, sparsely populated region of far northeastern Europe and mobilizing it for constant defense against a host of aggressive neighbors,” Marshall Poe underlines that “not only did the Russians survive, they prospered, creating in the span of a bit over a century an empire that stretched from Archangelsk to Kiev and from Smolensk to Kamchatka.”¹⁸

The Muscovite Matrix

The institutional matrix that the Muscovites evolved to solve their security problems was composed of five main pillars, all of which were logically and rationally interconnected. The first was conditioned by the need to achieve unity in command. Following the severe attrition of the internecine wars that raged between the multitude of tiny principalities during much of

¹⁶ Kluchevsky, V.O. (1912), *A History of Russia*, Vol. 2, London: J.M. Dent & Sons, p. 118.

¹⁷ Hosking, op. cit., p. 3.

¹⁸ Poe, Marshall T. (2000), “A People Born to Slavery.” *Russia in Early Modern European Ethnography, 1476-1748*, Ithaca, NY: Cornell University Press, pp. 219-20.

the fourteenth and fifteenth centuries, there emerged a consensus that one grand princely family would serve as the *primus inter pares*. In rapid succession, however, the Princes of Moscow succeeded in arrogating to themselves complete dominance over all others – leaving for later armed confrontations only Novgorod, Lithuania and the Mongols.

Importing the Byzantine notion of “autocracy,” in subsequent Muscovite development this order of things would come to be known as *samoderzhavie*, or self-rule. As in many other cases of institutional borrowing, or imitation, the transfer of this concept was associated with some distortion in meaning. While autocracy in Constantinople had implied that the Byzantine Emperor would recognize no foreign constraints on his exercise of power, in Moscow it came to mean that the Grand Prince would recognize no constraints whatsoever, foreign or domestic. Of all the threads that normally go into weaving a continuity theory of Russian history, this principle of unaccountability surely must be the most prominent and the most durable.

This is not to say that Russia was destined from the outset to become totalitarian, or that the “rude and barbarous kingdom” that foreign visitors to Muscovy so loved to hate and despise was somehow inherently Asiatic and/or despotic.¹⁹ Remaining wary of entering into the labeling game, our understanding of autocracy, as it emerged in old Muscovy, shall be straightforward. Its distinguishing feature is that it was associated with no institutionalized means by which subjects could call the ruler to account. Under this definition, the fact that both tsars and grand princes would over time at various occasions see fit, or even feel compelled, to call a *zemskii sobor* or to consult with members of the boyar duma, may be reduced to a matter of degree rather than of principle.

If we thus accept unaccountable government as the first of five stepping stones that would lead to completion of the institutional matrix of Muscovy, it follows logically that the second step had to entail a suppression of rights to private property. The reason for logic necessity on this count is twofold. On the one hand, the constraint that rested in dire security needs called for the autocrat to be able to mobilize resources at will, i.e. that he be freed from the necessity of entering into negotiations with recalcitrant nobles. On the other, and more importantly, if unity in command was to be maintained, the boyars could not be allowed to have estates of their own, based on which they could independently challenge commands from the Grand Prince.

¹⁹ Berry, Lloyd E. and Robert O. Crummey (eds.)(1968), *Rude & Barbarous Kingdom: Russia in the Accounts of Sixteenth-Century English Voyagers*, Madison, Wi.: The University of Wisconsin Press.

Thus it came to be not only that the old established right, enshrined in numerous princely treaties of the time, for boyars and servitors to move about and even to switch their allegiances,²⁰ was suppressed, and that the similarly traditional right to inherit estates (*votchina*) was transformed into a system of conditional tenure (*pomestie*). The resulting fusion of power and property constitutes the most distinctive of all dimensions of Russian specificity; importantly, it also forms the hard core of what Pipes refers to (following Weber) as the “patrimonial” regime of old Russia.²¹

As in the case of autocratic government, we shall be wary here of the perils of labeling. Since every scholar has the right to make his or her own definitions, and since the very notion of private property has been surrounded by controversy ever since the days of the ancient Greeks,²² this is an area where much ink may be spilt without the opposing sides coming much closer to any form of agreement.²³

The main point, from our perspective, is that whatever practical rights to temporary usufruct may have been granted by the rulers, it will have to remain a fact that the model had no institutional means by which subjects could even hope to have their rights to property enforced against the will of the ruler.²⁴ If a conflict of interest arose, the outcome would be clear, and since this was clearly known to all, it makes little analytical sense to speak of an economic or legal *institution* of property rights.

Approaching the matter from a more theoretical perspective, we may recall Mancur Olson’s emphasis on the role of the state in rendering meaning to the notion of property as such: “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.”²⁵

The third step on our path concerns legal regulation and may be viewed as a logical consequence of the former two. Since the autocracy was not prepared to accept constraints on its exercise of power, there would arise no need for constitutional law, and since it did not

²⁰ The standard phrase employed stipulated that “the boyars and servitors who dwell among us shall be at liberty to come and go.” (Kluhevsky, V. O. (1911), *A History of Russia*, vol. 1, London: J. M. Dent & Sons, p. 263.)

²¹ Pipes, 1974, op. cit.

²² See further Pipes, 1999, op. cit., ch. 1.

²³ For an illustration, see Pipes, Richard (1994b), “Was there Private Property in Muscovite Russia?,” *Slavic Review*, vol. 53, no. 2, pp. 524-30.

²⁴ The strongly litigious culture of Western feudalism, where vassals were always ready to hold their lords to account, may be seen here as a powerful illustration of what Muscovy was missing.

²⁵ Olson, Mancur (1995), “Why the Transition from Communism is so Difficult,” *Eastern Economic Journal*, vol. 21, no. 4, p. 458.

recognize inalienable rights to private property in the means of production, there would emerge no demand for contract law. This surely does not mean that Russia was a lawless society, far from it. Russian history has been marked, and remains marked to this day, by intensive law making. The test lies in the *purpose* of such law-making.

Some scholars have chosen to make a distinction between the rule *of* law and the rule *by* law, where the dividing line is determined by the distribution of power.²⁶ While this fits well into the Russian tradition of law serving as an instrument in the hands of those in power, for our purpose it is more important to place specific emphasis on the *rule of contract law*. The test here is whether the state is ready, able and willing to assume the role and responsibility of an impartial third party enforcer, thus securing the right to private property as defined by Olson above. Absent both accountability and the very notion of rights to property, it follows that the Muscovite rulers would never even approach this test, far less pass it.

The fourth step on our path brings back into the picture the harshness of nature and the associated poverty. In Kievan Rus, despite the riches that were derived from trade, the rulers never formulated a system of paying cash for service. While senior boyars were allowed to take part in and profit from trading expeditions to Constantinople, lesser officials were offered *kormlenie* (literally: “feeding”), which in essence meant that they were allowed to extract from the peasantry what they needed for sustenance.

In Muscovy, where the role of foreign trade was drastically reduced and money was in perennially short supply, the practice of awarding *kormlenie* would be even more expedient. It would, however, also have two important consequences. The first was that the contractual element that is involved in bargaining for wages, and in honoring agreements reached, was left out of the formulation of the institutional matrix, thus reducing even further the potential pressure for legal regulation. The second and more important consequence may be viewed against the backdrop of what is known in modern social science as “rent seeking.”

The main point of the latter approach is to show how incentives may lure actors into undertaking activities that are purely redistributive, i.e. that serve to increase their own welfare at the expense of others. Since they consume real resources in the process, without contributing to the joint product, the outcome is a deadweight loss to society. In the Muscovite case, however, boyars and other officials who depended on the court should be portrayed not as rent seekers but as beneficiaries of rent granting by the autocrat.

²⁶ For a detailed discussion, see a collection of articles in Maravall, José Maria and Adam Przeworski (2003), *Democracy and the Rule of Law*, Cambridge: Cambridge University Press.

The distinction serves to capture that while rent seeking actors in a Western context are viewed as skillfully preying on the state, their Muscovite counterparts are entirely at the mercy of the *rent granting* autocrat. In an ambition to preserve some form of fairness between their servitors, Muscovite grand princes did practice rotation of lucrative *kormlenie* postings,²⁷ but there was never any sense of rights involved. What could be granted could just as easily be withdrawn. While Western-style rent seekers will always have a range of options at hand, thus constantly seeking to weigh productive against unproductive activities, Muscovite beneficiaries of rent granting were locked into a system where playing for influence and patronage was – quite simply – the only game in town. Both norms and strategies would have to be adjusted accordingly.

The fifth and final stepping stone, which will serve to complete the institutional matrix, was the introduction of an ideology to underpin the state. This is where Orthodoxy re-enters the picture, as a vital formative influence. In order to understand how and why the Orthodox Church came to play such an important role, we must begin by noting that monks had a near-monopoly on literacy, and that monasteries were major landowners. From these observations we may derive three vital interests that came to mark relations between the Church and the State.

The first of these was an ambition by the clerics to curry favor with the Grand Prince, by driving home to the faithful that autocracy was pleasing to God and that subordination to the autocrat was hence a religious duty. The second was more directly linked to a desire by the monasteries to prevent the autocracy from even thinking about expropriating Church estates, as it was in the process of doing with the estates of the nobility. This was achieved via the spinning of myths, such as that of Moscow as the Third Rome, which placed upon the worldly authority a solemn duty to protect the last remaining stronghold of Orthodoxy. The third vital strand of interest that marked Church-state relations rested in the fervent ambitions by the clerics to portray the Catholic powers of the West as lethal threats to the true believers. The resulting xenophobia was so virulent that it may be seen still today, for example in the stubborn refusal by the Patriarch in Moscow to allow a visit by the Pope. Since this form of xenophobia has also served to rationalize the need for sacrifices in building defenses against the West, we may see, as noted above, how the model is neatly knitted together.

The combined outcome of these five stepping stones was reflected in a rather peculiar form of political culture that would come to be known as a “service state,” staffed by a

²⁷ Vernadsky, George (1953), *A History of Russia, Volume III, The Mongols and Russia*, New Haven: Yale University Press, pp. 359-60.

“service nobility.” The outer trimmings of this culture were manifested in a diplomatic protocol that called even for senior boyars to kowtow before the ruler, and to address him in the third person diminutive as “slaves” (*kholopy*). Foreigners who visited Muscovy in the sixteenth century, such as Giles Fletcher or the baron Sigismund von Heberstein, would come away with shocking stories that had a long-lasting influence on Western perceptions both of Muscovy and of the subsequent empire.²⁸

Rather than focus on accounts of how diligent kowtowing had caused senior nobles to develop calluses on their foreheads, we should note that from their point of view this again was the only game in town. While they may have believed that they were the anointed caretakers of the Byzantine heritage, with double-headed eagles and all, when it came to daily routine and management they only had the Mongols to learn from.²⁹ What we may conclude, without delving too deep into the Mongol-Byzantine conundrum, is that amongst the Muscovite nobility the norms of autocratic, i.e. unaccountable, government had been firmly endogenized and rationalized as “honor” or *chest*.

The practical implications were straightforward. In the complete absence of any form of autonomous sphere of activity, would-be entrepreneurs were reduced to playing influence games at and around the court. Their decisions on what skills to develop would be adjusted accordingly. In one of his favored illustrations, North emphasizes that if the payoff matrix in a society is such that it rewards negative behavior, then rational actors will have an incentive to invest in becoming better at such behavior: “The kinds of skills and knowledge that will pay off will be a function of the incentive structure inherent in the institutional matrix. If the highest rates of return in a society are piracy then organizations will invest in knowledge and skills that will make them better pirates.”³⁰

The real essence of the service state was that the state, or more specifically the autocracy, was the only force that could serve to initiate change or to focus economic activity. In modern parlance we might say that the state was the only engine of growth. From this perspective, as will be argued below, the Soviet command economy comes across as a logical downstream manifestation of principles that had been introduced much earlier. Already by the

²⁸ An outstanding example of the latter is found in Custine, Astolphe, Marquis de (1989), *Empire of the Czar: A Journey Through Eternal Russia*, New York: Doubleday.

²⁹ For an effective debunking of the myth about senior boyars as true slaves of the Grand Prince, see Poe, Marshall T. (1998), “What did the Russians Mean When They Called Themselves ‘Slaves of the Tsar’?,” *Slavic Review*, vol. 57, no. 3, pp. 587-608.

³⁰ North, Douglass C. (1993), “Toward a Theory of Institutional Change,” in: W. A. Barnett, M. J. Hinich and N. J. Scofield (eds.), *Political Economy*, Cambridge, Mass.: Cambridge University Press, p. 62.

early seventeenth century, as Robert Crummey puts it, “the Russian nobility wore the harness of service like a well-trained horse.”³¹ And, by all appearance, they did so proudly.

The Failure of Reform

By far the most important test of the enduring power of the Muscovite model arrived in 1598, when the state collapsed and for all intents and purposes seemed destined to go the way of so many other pre-modern European states that simply faded into oblivion. The ensuing “time of troubles” saw various pretenders placing bogus claims to the throne, and foreign armies – both the Polish and the Swedish – being invited to enter even the Kremlin itself.

The fact that a *zemskii sobor*, called in 1613, finally did manage to elect Mikhail Romanov as new tsar, and that the country subsequently proceeded to pull itself together, represents one of the most remarkable feats in all of Russian history. It is remarkable not only in overcoming massive chaos and destruction, but even more so in the sense that it represented a restoration of the *status quo ante*.

Given the vital role that has been assigned to the Magna Carta and similar such arrangements in the political development of the West, one might have expected that the princes and boyars of Muscovy should have used the occasion of restoration to place a set of conditions before the new tsar. That they chose not to do so may be seen as a powerful endorsement of the old system, which was resurrected in an unadulterated form. This fateful institutional choice at once illustrated both the stability and the fragility of the Muscovite model.

Throughout the seventeenth century, as Muscovy was being transformed into a Russian Empire, the old ways proved to be very dependable. With Poland-Lithuania conclusively defeated, almost all the lands of old Kievan Rus, the famed *russkie zemlya*, had once again been brought together under one ruler. The real test of the model arrived with the resounding defeat against Sweden at Narva in 1700. Shaken by the event, Peter I decided to mobilize for total war and the outcome may be viewed as the first real command economy in European history – deploying instruments of forced extraction in order to enhance the

³¹ Crummey, Robert O. (1983), *Aristocrats and Servitors: The Boyar Elite in Russia, 1613-1689*, Princeton, NJ: Princeton University Press, p. 34.

country's war-fighting capabilities. For all the imagery of Peter the Great as a great reformer, Pipes still views his rule as "the apogee of tsarist patrimonialism."³²

When Peter died, in 1725, the imperial model was complete – and it worked. A century later, having defeated Emperor Napoleon's *Grande Armée*, Emperor Alexander I would bring his empire firmly into the "concert of nations" where it would remain as a great power. The main problem with this long streak of seeming successes is that Russians in a sense have been deluded into keeping score in the wrong game. Dazzled by massive territorial expansion and by a concomitant rise in political stature, they may be forgiven for having forgotten about the dark side of the story.

While the Muscovite model may have been highly rational in a pre-modern context, developments over time would push it further and further out of sync with the demands of modern economy and modern society. That it remained able to achieve its original objective of forced mobilization must not be allowed to hide from view the fact that the price for such achievements would grow steadily higher. Nor must its seeming stability be allowed to obscure its intrinsic fragility, as evidenced both in 1917 and in 1991.

Returning to the time of Peter's death, we may find that the logic of the model worked equally well in reverse. Above we have argued that it was severe security threats that served to trigger the strategy of forced extraction from above. The transformation of Muscovy into an empire had 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 *apparat* could be built to do the job? It was surely no surprise that the post-Petrine era would come to be known as the "age of the nobility."³³

The ensuing process may be viewed as a long series of illustrations of one of the basic premises of neo-institutional theory, as laid out by Douglass North, namely that while formal rules may be changed overnight, informal norms change only gradually, if at all.³⁴ The age of the nobility marked the beginning of an era where a series of well-intended reformers realize that change is needed and do implement at times highly significant changes in the formal rules of the game. Yet, as we all know, the results would leave quite a bit to be desired.

In the first round, all the formal supports of the service state were removed. Under Empress Anna, compulsory service was reduced to 25 years. Under Emperor Peter III, it was

³² Pipes, 1999, op. cit., p. 187.

³³ Kochan, Lionel and Richard Abraham (1990), *The Making of Modern Russia*, Harmondsworth: Penguin, ch. 8.

³⁴ E. g. North, Douglass C. (1990), *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.

abolished altogether, and under Catherine the Great a special Charter of the Nobility was introduced, to secure that no noble could be deprived of property without due process. In the reign of Alexander II, the most liberal of all Russian tsars, serfdom was finally abolished and major reform of the judiciary was introduced. In the final quarter of the nineteenth century there were major advances in economic policy, ranging from the introduction of a (non-secret) state budget, to broad monetization of the economy and a convertible currency. The beginning of the twentieth century, finally, saw agrarian reform, constitutional reform and free elections to a popular assembly. From a purely formal perspective, it would seem hard indeed to point at dimensions where further reform would have been seriously needed.

As if these formal reasons to believe in success were not enough, we may also point at informal changes that were of perhaps even greater importance. By far the most important on this count was the process of thinking about legal reform that was begun with Catherine's calling of a legislative commission. The "Instruction" (*nakaz*) that she formulated for this body to contemplate was heavily influenced by Montesquieu's *Ésprit des lois*, and although nothing came of the commission as such important seeds had been sown that would capture the minds of a young generation of bright jurists, and that would culminate in the Great Reforms under Alexander II.

On top of this emergence of a technocratic intelligentsia there also was the grand intellectual challenge from the "Westernizers," many of whom were disgruntled guards officers who believed that the only possible remedy for Russia's ills would be an instant embrace of the West, including Catholicism. Their cause was symbolically expressed in Alexander Herzen's classic statement, that the veritable history of Russia began only in 1812, and the clarion call for their challenge was sounded by the retired Guards officer Pyotr Chaadaev, in an 1836 "Philosophical letter" in the Moscow journal *Teleskop*.

His verdict over the contributions of Russian culture was hard hitting: "Alone in the world, we have given nothing to the world, taken nothing from the world, bestowed not even a single idea upon the fund of human ideas, contributed nothing to the progress of the human spirit, and we have distorted all progressivity which has come to us. ... We are one of those nations which does not seem to form an integral part of humanity, but which exists only to provide some great lesson for the world."³⁵ (Although Chaadaev was immediately declared insane and placed under house arrest, his challenge would live on.)

³⁵ Cited from Duncan, Peter J. S. (2000), *Russian Messianism: Third Rome, Revolution, Communism and After*, London and New York: Routledge, p. 20.)

By the end of the nineteenth century, the Russian economy was growing vigorously, and to many that has been taken as evidence that the country was finally about to break out of the past. Had it only not been for the outbreak of the Great War, Russia would have caught up with and been successfully integrated into Europe. Perhaps this is so, but it does not come across as a very likely story.

What we may conclude, with some confidence, is that for all the talk about enlightenment and about Great Reforms, the fundamentals of the Muscovite matrix remained strikingly intact. Most importantly, even under the most liberal of tsars there was absolutely no questioning of the autocratic order: “But what Alexander adamantly refused to consider was the ‘crowning of the edifice’ hoped for by the liberals: a national legislative assembly. As he constantly repeated: ‘*surtout, pas d’Assemblée de notables!*’”³⁶

This is certainly not to say that it was impossible as such; the early twentieth century after all did see important changes in the formal rules, including a Basic Law.³⁷ What remains debatable is to what extent the sweeping formal changes were also reflected in a readjustment of strategies and in a supporting transformation of norms. We shall illustrate this important issue by looking at three examples, all bearing on the crucially needed transformation from service state to market driven entrepreneurship.

The first concerns the relaxation and eventual abolition of the service requirement, which technically paved the way for private entrepreneurs to set themselves up and for an autonomous market-based sphere of economic activity to emerge. An important question is if this really was the intention. An alternative interpretation is that the point simply was to make incompetent nobles redundant without pay, in the understanding that they would remain on call should the need arise. By allowing noblemen to take unpaid leave of absence, at a time when their services were no longer needed to the same extent, the state could save considerable outlays. That fiscal expedience was the main motive is also underscored by the fact that no formal right to such leave was codified. If need be, the policy could easily be reversed.³⁸ No matter what we choose to think about this alternative, it will remain a fact that in the century following the formal abolition of service there was precious little to be seen in terms of private entrepreneurship.

³⁶ Malia, op. cit., p. 168.

³⁷ Szeftel, Marc (1976), *The Russian Constitution of April 23, 1906: Political Institutions of the Duma Monarchy*, Bruxelles: Editions de la Librairie Encyclopédique.

³⁸ Jones, Robert E. (1973), *The Emancipation of the Russian Nobility 1762-1785*, Princeton, NJ: Princeton University Press, pp. 24-25.

Our second illustration concerns the abolition of serfdom, in 1861. Being deprived of serf labor to run their estates, nobles would now be forced to enter into market-based relations, and this not only in the labor market. Given that the possession of serfs had represented the mainstay of their capital – estates being worthless without labor to work them – they would also have to enter and form a capital market. Neither of these tasks would be approached with anything resembling success. Noting that most of the nobles did not “know how to count roubles and kopeks, and indeed scorned doing so,” Pipes characterizes their post-emancipation predicament as “the ultimate vengeance of serfdom,” and proceeds to underline its political implications: “Whatever hope there might have been that the *dvoryanstvo* would develop into a politically active class vanished in 1861. The emancipation of serfs was a calamity for the landlords.”³⁹

The third and perhaps most conclusive illustration of the staying power of the old Muscovite model relates to the economic boom in the final decade of the nineteenth century, a boom that is normally ascribed to the skillful leadership of Finance Minister Sergei Witte. While there can be no doubt about the boom as such, there has been little attention paid to the way in which it was achieved. The key to Witte’s success rested in imposing punitive taxes on the peasantry, which produced a surplus production that could be exported. Thus Russia achieved both a trade surplus, and, as a result, a strong currency. The downside was that it represented the same old policy of forced extraction of resources from above, leading to such negative consequences for the agricultural sector that the next century would begin with starvation and mass disturbances.

The latter illustration in particular reflects not only how ill-adapted the Muscovite model was to cope with the problems of an increasingly modern and increasingly complex society and economy. Even more so, it reflects the dangers of what we have referred to above as keeping score in the wrong game. Witte after all did produce tremendous results in terms of pig iron and rail tracks laid. Was it then not an unqualified success? The question that needs to be asked here concerns the difference between modernizing and Westernizing.

Ever since Muscovy entered into her first painful contacts with the West, via the disastrous Livonian war under Ivan IV, military needs have prompted wave after wave of attempted modernization. Following serious military debacles, such as the Crimean war, the war against Japan and the Great War, such ambitions have assumed particular urgency. The problem has been that in times of urgency it is also particularly tempting to resort to methods

³⁹ Pipes, 1974, op. cit., p. 190.

that are tried and tested. Thus the Muscovite model has survived wave after wave of attempted Westernization.

What would have been needed for modernization to be associated with Westernization, and thus also to win sustainability, may be clearly seen simply by reversing the role of the five main pillars that have been defined above. According to the logic of the Muscovite model, true Westernization would have required the introduction of accountable government, of the rule of contract law guaranteeing the sanctity of private property, and of autonomy in the market place to secure not only free markets but also a removal of incentives to continue playing for patronage and influence at the top. If all of this could be achieved, then we would see not only a drastic reduction in corruption but also a withering away of the last and ideologically most fundamental pillar of the Muscovite matrix, that of xenophobia.

At the outset of the twentieth century, there were signs that a transition in this direction may have been under way. Whether or not this actually was the case, we shall never know. What we do know is that the process was brought to an abrupt halt.

The Soviet Order

When the Bolsheviks proceeded to build their formally utopian new order, they would provide ample illustration of what North would have to say in his 1993 Nobel Prize speech, namely 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.⁴⁰

Once we have trimmed away all the outer *décor* of Marxism-leninism, what remains bears a striking resemblance to the old Muscovite order, as it was perfected under Peter the Great. The logical first step on the path towards a Soviet institutional matrix was to erase all traces of such moves towards division of power that had marked the last decade before Great October, namely constitutionalism, free elections to a popular assembly, and the granting of a catalogue of rights to subjects who were thus transformed into citizens. While nominally a government of the people, if not by the people and for the people, the hard core of the

⁴⁰ He also specifically cautioned that “transferring the political and economic rules of successful market economies to Third World and Eastern European economies is not a sufficient condition for good economic performance.” (North, Douglass C. (1995), “Economic Performance Through Time,” *American Economic Review*, vol. 84, no. 3, p. 366.)

Bolshevik program was to establish a monopoly on power for the unelected party, and a monopoly on power within the party for its unelected leadership.

Scholars may quarrel endlessly over whether this represented a dictatorship, an autocracy, an oligopoly or some other fancifully concocted type of rule. What will remain, from our Muscovite perspective, is the undisputable fact that all potential ambitions of late tsarism to move towards constitutionalism and accountable government were effectively erased, and would so remain for the duration of the Soviet era. Although Soviet citizens had numerous ways in which they could voice and lodge complaints, even at the highest levels, that in no way should be taken as evidence that the regime could also be effectively held to account.⁴¹

The logical second step on the road to Soviet power was to eradicate the rights to property that had emerged, however shakily, towards the end of the nineteenth century. Soviet/Russian historiography routinely tells the story of how the Bolsheviks proceeded to nationalize private property, beginning with the banks, proceeding to industry and completing their project with the horrors of mass collectivization. The fundamental problem with this story again rests in misconceived definitions.

In the context of a rules-based market economy, nationalization is understood as the transfer – with or without compensation – of clearly defined rights to property from private to state hands. If the property right remains clearly defined even when it is in state hands, it follows that the process will be fully reversible. Rights may be returned – with or without compensation – to private owners, who may be former or new owners. The crucial point lies in reversibility.

When the Bolsheviks proceeded to take over banks, enterprises and farms, there were no considerations of this nature. Rights to property that by the turn of the century had been weakly developed at best were now simply eradicated. What lurked behind the notion of “people’s property” was not nationalization but an elimination of the *institution* of property rights. Throughout the Soviet period, there would be only one legal person – that of the USSR Inc. Speaking of Soviet firms and enterprises was seriously misleading, in the sense that these were not legal entities in their own rights, which, for example, could assume credit obligations and be bankrupted.

⁴¹ The possibilities that did exist for Soviet citizens to complain and to retreat into semi-private activities represented safety valves that may be viewed as soft versions of Albert Hirschman’s options of Exit and/or Voice. See further Hedlund, Stefan (1989), “Exit, Voice and Loyalty – Soviet Style,” *Coexistence*, vol. 26, no. 2, pp. 179-208.

Without firmly grasping this distinction it will not be possible to fully appreciate the complications of the process of privatization that would ensue following the collapse of the Soviet order. It is only if we accept that the institution of property as such had been eradicated, that we may also see clearly what the first order of the day *should* have been, namely that of *introducing* property, not of engaging in technical niceties on sequencing and such.

The third step on the road concerned legal regulation, an area where the Bolsheviks really could display their true intentions. Already on December 7, 1917, the Bolshevik government issued its “Decree No. 1,” which said that old laws would be observed “only insofar as they had not been repealed by the Revolution and did not contradict revolutionary conscience and the revolutionary concept of justice.” Thus, says the Russian jurist Aleksandr Yakovlev, “the theoretical grounds and the political and moral justifications for the Great Terror ... were laid down.”⁴²

The real crux of the matter rested in the fact that, as had been the case in old Russia, the Bolsheviks again placed themselves and their power above the law. By placing morality before the law, and by reserving for themselves the right to determine morality, they made a mockery of the most basic of principles of the rule of law. Since their more practical economic policy aimed to abolish all rights to property, and to criminalize all forms of market-based business relations, all economic activity was thus *de facto* placed outside the law. It hence again was up to the court of the autocracy to act as sole owner and sole entrepreneur.

The fourth step concerns the role of money. Karl Marx had predicted that Communism would be at hand when the money economy began to collapse and the state withered away. As this was precisely what was happening in the wake of Great October, it was perhaps not so strange that many Bolsheviks would view the printing presses as one of the most powerful tools in their arsenal. In 1920, the money economy did collapse and for a time there were dreams of a money-free society.

As realization grew that administrative distribution would represent an overwhelming burden, the regime was forced into a double retreat, allowing both wages and prices to be expressed in monetary terms. The problem was that Soviet rubles did not represent money, in the theoretical sense of actors in the economy being indifferent between holding money and

⁴² Yakovlev, Alexander M. (1995), “The Rule-of-Law Ideal and Russian Reality,” in: Stanislaw Frankowski and Paul B. Stephan III (eds.), *Legal Reform in Post-Communist Europe: The View from Within*, Dordrecht: Martinus Nijhoff, p. 10.

holding goods. The official monetary unit of the USSR was more akin to food stamps, being valid for certain goods in certain outlets but covering only a minor part of the total consumption basket of a typical household. Thus the system not only violated the principle of consumer sovereignty, but also made the subjects realize that they were fully dependent on the state for their material well-being, and indeed survival.

By far the most important dimension of this quasi-monetary system was that official money was not to be – legally – used by “enterprises.” Since the logic of the command economy was that enterprises should obey orders, and not engage in independent decision making, this in a sense was logical. It also implied, however, that with traditional profit maximizing behavior making zero sense, managers again were reduced to playing traditional Muscovite games of influence. Not only would this lead to inefficiencies in resource allocation. Unsurprisingly, it would also give rise to – or perpetuate – massive corruption.

The fifth and final step on the path to a Soviet order – that of reintroducing xenophobia – provided by far the most obvious regression to old Muscovy. Faced with a stark need for military modernization, Stalin launched a massive campaign for industrialization that again depended on tried and tested methods.⁴³ Like Witte, but in even more brutal ways, he imposed heavy tribute on the agricultural sector, which suffered incalculably. Interestingly, he also chose to rationalize his policy of forced extraction by reinstating official xenophobia, to the point even of resurrecting the old myth about Moscow as a Third Rome.⁴⁴

Viewed simply from the perspective of mobilization and modernization, the model again performed admirably. Much as it had saved the old Muscovites from being destroyed by the peoples of the steppe, it now first saved the Russians from being destroyed by the Nazi war machine, and then proceeded to erect a mighty empire with global reach and formidable weaponry. The coin, alas, also had a flip side. On its dark side, which Russians have tended to ignore, we will find those from whom the price for the achievement was forcefully extracted.

Stalin’s policy of mass industrialization certainly did not represent any form of *Wirtschaftswunder*. It was the Petrine service state resurrected and harnessed to achieve a maximum priority for the enhancement of the country’s war-fighting capabilities. Since it succeeded in its primary objective, Russians were induced to maintain their practice of

⁴³ In 1931, with eerie foresight, the Great Dictator presented to his subjects what the challenge was about: “We have fallen behind the advanced countries by as much as fifty to one hundred years. We have to overcome this lag within ten years. Either we accomplish this, or we perish.” (*Pravda*, February 5, 1931. Cited from Smolinsky, Leon (1966), “The Soviet Economy,” *Survey*, no. 59, p. 88.) When the allotted time had expired, as we all know, the Germans arrived and Muscovite forced mobilization had just barely succeeded in amassing the resources needed to halt and defeat the onslaught.

⁴⁴ The parallel may be expanded to include how the Communist Party slid into the equally self-appointed role of fifteenth century monasteries as producers of ideology, notably so xenophobia and support for the autocracy.

keeping score in a game that nobody else wanted to play. By far the most important test of this proposition arrived in the aftermath of WWII. When all others downsized their war machines, and allowed consumers to regain their sovereignty, the Soviet Union essentially remained a war economy. The tragedy for twentieth century Russians was that a model that may well have been rational in the fifteenth and the sixteenth centuries, in the twentieth must be viewed as seriously out of sync with modern demands and realities.

When the Soviet order suddenly collapsed, the main question to be asked concerned whether out from under the Soviet rubble Russia would be able to formulate a policy to guarantee a sustainable development to benefit the bulk of its citizenry, or if there would be just another attempt at modernizing without also Westernizing.

The Failure of Transition

The collapse of the Soviet order was a spectacular event. There can be no quarrel about this. The fact that it happened so suddenly, foreseen by few if any in the community of Russia-watchers, bears witness not only to the weakness of the predictive tools of the profession, but even more so to the inherent weakness of the institutional structure of Russia.

What hides behind the notion of a strong Western-type society is an institutional matrix that is sufficiently strong to cope even with drastic events at the center of power. Should disaster of some kind strike, the rule of law will ensure that both the economic and the political dimensions of society will be able to weather the crisis. In the Russian case, crisis at the center causes instant paralysis of the system as a whole, which may deteriorate into complete collapse and disintegration.

We have three spectacular illustrations of the latter, namely the above-mentioned collapse of Muscovy in 1598, the subsequent collapse of the Russian Empire in 1917, and the collapse of the Soviet order in 1991. On all three occasions, a breakdown of central power was followed by territorial fragmentation and by widespread looting of assets belonging to the state. In the former two cases, the ensuing “times of trouble” were followed by a resurrection of the old order, albeit in new garb. Thus it was that the Russian empire emerged out of Muscovy, and that the Soviet order emerged out of the empire. What now remains to be seen is what type of order will emerge out of the Yeltsinite time of troubles, once it in turn is brought to an end.

This is not the place to enter into polemics on the merits of the reforms that were launched by Boris Yeltsin and his band of famous young reform economists. Suffice it to say that while they did produce a rhetoric that was astonishingly radical, and that did serve to impress the West, their actual achievements on the ground left quite a bit to be desired. Exactly why so many observers allowed themselves to be deluded for so long into viewing it all as a success is an intriguing question. Perhaps it had much to do with a laudable and heart-felt desire that Russia really *must* succeed. Perhaps it was due to the overwhelming salesmanship of the reformers and their foreign consultants. Or perhaps it was driven by the conviction of many economists, that a rules-based market economy represents a societal default position of sorts.

No matter what the reason, we may conclude that much of the discussion about Russian economic performance throughout the 1990s failed to focus on what was really driving the economy into hyperdepression. In logical consequence of what has been said above, we shall argue that the real trigger was that of removing the security threat. With the enemy gone, there was nothing left to maintain the focus on resource extraction, which had provided the model with its previous rationale and coherence. Absent both property rights and a sense of state legitimacy, it was not surprising that all state property was suddenly viewed as legitimate loot. Thus it was that the post-Soviet nomenklatura switched from state service to mass plunder. Since the bulk of all stealable – and exportable – resources were to be found within the military sector, it was there that the hardest blows would fall.

The ensuing destruction of the VPK – the military-industrial complex – was by far the most spectacular dimension of the failures of systemic change, or of shock therapy. Proudly proclaiming that it was promoting conversion of military production, the Russian government undertook sweeping cancellations of state orders to the VPK, which effectively ground to a halt. Over the years 1991-98, the output of this previously so crucial sector dropped by more than 80 percent, leaving massive excess capacity.⁴⁵ Accepting that military production had accounted for maybe 30 percent of Soviet GDP, it was not surprising that the country was thrown into hyperdepression.

As had been the case in the age of reform that followed in the wake of the death of Peter the Great, the Yeltsin era would feature a whole range of formal changes in the institutional structure, ranging from free and fair (?) elections, to liberalization and

⁴⁵ Cooper, Julian (2001), “The Russian Military-Industrial Complex: Current Problems and Future Prospects,” in: Pentti Forsström (ed.), *Russia's Potential in the 21st Century*, Helsinki: National Defense College, Series 2, no. 14, pp. 43-56.

privatization of the economy, and respect for human rights (the latter being vouched for by the Council of Europe), which, taken together, could be construed as evidence that the country was indeed undertaking a rapid transition to democracy, market economy and the rule of law. Numerous outside observers would also gladly sign off on the achievement of such successes. Most importantly, perhaps, both the EU and the US Treasury would eventually recognize that Russia has now successfully built a market economy, thus freeing Russian industry from the threat of anti-dumping proceedings.

Russian realities again call for attention to be paid to the distinction between changes in the formal rules, which are easily implemented, and such changes in supporting norms and values that are crucial for the formal changes to have the desired effect. Viewed from this perspective, the process of reform at once loses a great deal of its luster.

According to the logic of our Muscovite model, the main item to be approached was that of replacing autocracy with a system of power sharing, including checks and balances that may allow for accountability in government. Although Boris Yeltsin did introduce a post as vice president, although he did allow free elections, and although he did introduce a constitution, it would remain hard to say that the system included *any* institutions that made for effective accountability. Yeltsin himself repeatedly would make it clear that he considered himself to be above the law, and the political system featured nothing that could be construed as political parties vying for power based on identifiably different political platforms. As political power thus remained unaccountable, political energy would remain focused on playing for influence and privilege at and around the court.

The latter was most obvious in the dimension of economic policy, where both privatization and fiscal policy became vehicles for traditional Muscovite rent granting. Those who succeeded in pleasing the tsar would be granted rights to oil companies and nickel smelters, and their banks would be granted status as “authorized banks,” meaning that they had effective rights to predate on the federal budget. While the process was associated with much talk about rising shares of private property, and of stability in the monetary sector, both were shams. As the crash in 1998 and the subsequent destruction of Yukos would illustrate, rent granting remained conditional and could at any time be withdrawn.

We shall not delve any further into detail on the failures of Yeltsin era reforms. Suffice it to say that it represented yet another time of trouble, where important parts of the Muscovite matrix were shaken but where the rest remained sufficiently robust for the system as such to survive and be resurrected. The main change was the removal of the emphasis on forced extraction, which also entailed a downplaying of xenophobia. What remained in place

was unaccountability, conditional property rights, and legal regulation that was subordinated to the interests of power. The outcome was a system of predatory capitalism that was clearly unsustainable.⁴⁶

When Vladimir Putin succeeded Boris Yeltsin as president of the Russian Federation, he had to make a stark choice between two very different paths. One pointed at a determined completion of the project of Westernization, the other at a return to traditional ambitions of undertaking modernization without Westernization. Although it is still a bit early to claim that we have a verdict, it is beginning to look increasingly likely that the burden of Muscovite history once again will triumph over attempted reform. Since this represents a rather dismal outlook, we shall conclude by making a few notes on what it would take for real and sustainable change to be implemented.

What would it take?

Anyone who sets out to deal with the question of whether Russia really can – or even should – Westernize, will have to approach and deal with the burden of history. The simplest approach obviously is to deny that it is of any importance whatsoever, that from an economic policy point of view all countries are the same and that culture does not matter. This essentially was the approach of the Washington Consensus, and it no longer commands the same respect that it did in the early glory days of shock therapy.

Accepting that history and culture do matter, and that different countries do not have the same preconditions for successfully undertaking the same types of reform, at once raises a need to be more specific on how culture and history may be shown to matter. The simplest way out here is to allow oneself to be overawed. Reading up on Russian history, for example, is not a good way to crank up optimism about the country's future.

In a book with the telling title *The Agony of the Russian Idea*, Tim McDaniel sums up a track record of persistent failure: "Reform in Russia: over the 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)."⁴⁷

⁴⁶ The story is told in Hedlund, Stefan (1999), *Russia's "Market" Economy: A Bad Case of Predatory Capitalism*, London: UCL Press.

⁴⁷ McDaniel, Tim (1996), *The Agony of the Russian Idea*, Princeton, NJ: Princeton University Press, p. 174.

While the fact that all reforms up to present have ended in failure should not in any sense be construed as evidence that all future attempts will also end in failure, it should give pause to those who believe that simple declarations of intentions to reform, or even to undertake “systemic change,” will be sufficient to ensure success. There must be some important reasons that have produced the “track record of persistent failure,” and if those reasons cannot be properly understood and dealt with, then history is simply bound to keep repeating itself.

What may be illuminating here, short of going into the theory of path dependence, is to point at a few dimensions where, based on what has been said above, change appears to be crucially important. If we can agree on these points of necessity, then we may also be in a better position to say something about where Russia may be headed.

The first item on this list must concern the imagery of enemies that has served over the centuries, time and again, to trigger programs for forced mobilization of resources, with the aim of enhancing the country’s war-fighting capabilities. Although Russia has long suffered from a self-image of being “backward,” it has not been backwardness in providing consumer goods that has placed such a heavy stamp on economic policy. On this count, history has shown that on every occasion when the foreign threat is or can be downgraded, this has served to short-circuit the mass mobilization regime and thus to create a “window of opportunity” for change to be implemented. So it was at the beginning of the Yeltsin era, but while necessary it was clearly not also sufficient.

The second item on our list concerns the preconditions for such a window of opportunity to result in a sustainable change in direction, rather than in simple mass plunder. The crucial feature here must be that of accountability in government. If economic policy is to be based on consumer sovereignty and the golden rule, then voters/consumers/investors must have confidence that those who are in charge of running economic policy will do so within the framework of commonly accepted rules. If senior public figures can get away with serious transgressions of such rules, then it will be naïve indeed to expect that actors on lower levels shall adjust their behavior to what would be collectively rational.

This is particularly relevant if we turn to the question of the sanctity of property rights. If this condition cannot be met, then the state will remain as the only source of long-term structural investment. To the extent that private entrepreneurs invest at all, it will be in short-term ventures where speedy withdrawal is easy and costless. And if the government cannot be held to account, then there will be no guarantee whatsoever that its decisions on investment

will be taken with the best of the consumers/voters in mind. Entrepreneurs in consequence will remain focused on jockeying for influence and for shares in granted rents.

If we accept that both accountability in government and the sanctity of property rights really amount to the same type of problem, then it follows that the condition for success must be that of a credible commitment by the government to uphold the rule of contract law. This challenge entails not only effective constitutional binding, but even more so time consistency in the sense that actors in the economy must find it rational to alter their strategies and that they must be given sufficient time and positive reinforcement for social norms to be altered in a positive direction.

It is in the latter sense that we may find the true difference between modernizing and Westernizing. From Adam Smith's classic treatise on the *Theory of Moral Sentiment*, liberal economic theory and policy have been based on the prevalence of a set of norms and values that to this day still remain weakly developed in Russia.⁴⁸ Since the social sciences in general have precious little to say about how norms may be altered by deliberate policy, we are faced here with a real core problem.

We know that sustained positive experience will eventually cause actors to transform norms and expectations that are based on negative experience, but we also know that the threshold for such transformation to occur may be high and that it is thus unclear just how long the series of positive experiences will have to be. We also know that the rule of law will never be produced by the market alone, and that government thus has a crucial role to play in generating the stream of positive experience, but we also know that all governments will be vulnerable to moral hazards that may produce time-inconsistencies that defeat the purpose of generating a new set of supporting norms. Given these simple insights, the only thing we can say is that it will have to be a project for the long haul, to be undertaken by a government of impressive moral quality. Does Vladimir Putin fit this ticket?

Based on evidence thus far, the Putin administration is clearly moving in the wrong direction. The Kremlin has deliberately reintroduced the enemy that may serve to retrigger the mobilization mechanism. It has striven with great determination to remove all checks and balances, however weakly developed, that might have served as starting points for constructing an institutionalized mechanism of accountability, and it has suppressed all effective potential for the media to serve as watchdog. Above all, it has made a mockery of

⁴⁸ For all the talk that abounds about the emergence of a Russian middle class, Richard Rose finds that the outcome of the Yeltsin era modernization has been so warped that we may actually speak of an "anti-modern" society. (Rose, Richard (1999), "Living in an Anti-Modern Society," *East European Constitutional Review*, vol. 8, nos. 1-2, pp. 68-75.)

the notion of sanctity of property rights, and thus again made clear to would-be entrepreneurs that playing for influence and patronage is vastly more important than running businesses according to the rules of modern business schools. Given that the Russian government is thus not even trying to make a credible commitment to the rule of law, there would seem to be precious little on which to base an optimistic outlook for a sustainable Westernization of Russia to be in the cards.

At this point, it may be worth noting that the question of Westernization is no mere sophistry. It is certainly easy to agree with Malia, when he says that “As has been the case ever since Peter, if Russia wants to be strong, she will have to Westernize.” As we have defined the concept above, Westernization entails a promotion of such norms and values that are essential for a rules-based liberal economy to be at all possible. It is, however, not quite as easy to agree when Malia proceeds to draw an unsubstantiated and rather deterministic conclusion: “With her Communist identity gone, and with no other identity possible, she has little choice but to become, as before 1917, just another ‘normal’ European power, with an equally normal internal order.”⁴⁹

What is most worrisome with the Putin administration is that it is so clearly indicating that there are other possible identities, and that there is an obvious alternative to becoming yet again a “normal” European country, if that really ever was the case. The alternative is an unaccountable government that some will refer to as autocratic and others will see as merely authoritarian. What is important, beyond the labeling, is that this government will have little ability and perhaps even less ambition to make a credible commitment to uphold the rule of contract law. Entrepreneurs will read the signs with great care, and adjust their strategies accordingly. Substantial damage is thus already being done to the prospects for a high performance liberal economy to emerge.

This is not to say that a Russian economy that is based on the principles of a resurrected Muscovite service state will have to be an economic basket case. Even with substantially lower oil prices, the traditional mobilization regime may still be counted upon to produce high growth rates. After all, economic history does show that autocracies can over periods of time generate very decent rates of economic growth. It will, however, have to be growth that is less than what could have been achieved under a Westernized model. As we have defined the concept above, the Muscovite model will have to underperform its Western counterpart. Episodes of high growth will merely reflect more intensive extraction, and

⁴⁹ Malia, *op. cit.*, p. 412.

increasing burdens on the servitors of the autocracy. Russians have already been paying this price for centuries. Somehow one would have thought that the post-Soviet era should feature a political leadership that was ready, able and willing to put an end to this. The question, as posed above, is whether Vladimir Putin really fits this ticket.