SLAVES OF THE TSAR
Putin’s Boyars and the Problem of 2008

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As time goes by, it is becoming increasingly obvious that the grand project of undertaking rapid and successful “systemic change” in Eastern Europe and the Former Soviet Union was more than a little flawed. Despite good advice by the best and the brightest of Western experts, and despite billions in “credits” and aid, some countries remain defiantly persistent in refusing to complete their prescribed “transitions.” This is particularly striking in the case of Russia, which was by far the most favored recipient of foreign aid and advice. As we are now more than a decade and a half into the race, it would seem pretty timely to ask what the project was really all about, and whether it may perhaps have been a bit misconceived from the very start.

By far the most important question to be asked, in this connection, concerns the very notion of “transition.” When the project was launched, true believers in the Washington Consensus were firmly beholden to three articles of faith. One was that shock therapy would bring sure efficiency gains, the second that all the countries concerned would show the same type and rate of progress, and the third that success as such was, quite simply, a foregone conclusion. Underlying it all, we could also find a more fundamental, albeit implicit, belief that democracy, market economy and the rule of law jointly represent some sort of societal default position. If only deregulation could be implemented with sufficient speed and determination, then the market forces would take care of the rest.¹

It is important to stress that the latter argument in particular goes way beyond any ambition of scoring cheap debating points, in a debate that has already exceeded all reasonable bounds. It is certainly true that the transition industry was to be staffed by its fair share of carpet baggers, that some leading advocates of shock therapy would find it hard to separate desires for private gain from devotion to public duty (viz. in particular

¹ Noting that in psychiatry, the very idea of shock therapy is that the patient is sedated and does not take active part in the therapy, one cannot help but wonder about the thinking that went into developing this metaphor for broad-based societal and institutional change.
the Harvard scandal),\textsuperscript{2} and that even Western governments and leading financial institutions, such as the IMF, would at times succumb to moral hazard.\textsuperscript{3} While one may certainly both deplore and resent such kinds of behavior, it all represents a well known story that requires no further elaboration.

The real lessons that can and should be learned from the failures of transition, in the wake of the crumbling of the Soviet Empire, are of a more fundamental importance. At stake here, for the social sciences at large, is the ethnocentric belief that Western-style democracy, market economy and the rule of law jointly represent a societal “normality,” to which the “abnormal” countries can, must and will transition. The real crunch is whether we can realistically assume that shock therapeutic deregulation, and/or IMF-style structural adjustment, will be sufficient for socialist societies to become capitalist, or indeed for poor counties to catch up with the rich.

As Douglass North emphasizes, the track record on the latter count is pretty bleak. Despite massive outside efforts to achieve development in the Third World, the development gap has tended to grow rather than to narrow, and the scholarly community has been at a loss both explaining why and recommending what can and should be done. While North has been far from alone in pointing at the needs for new theoretical departures, he has been perhaps the most outspoken in stressing the shortcomings of traditional neoclassical economics: “The disparity in the performance of economies and the persistence of disparate economies through time have not been satisfactorily explained by development economists, despite forty years of immense effort. The simple fact is that the theory employed is not up to the task.”\textsuperscript{4}

In a plea for his own economic theory of institutions, he states the broader analytical challenge that is involved in seeking the required explanations: “Wouldn’t the political entrepreneurs in stagnant economies quickly emulate the policies of more successful ones? How can we explain the radically different performance of economies over long periods of time?”\textsuperscript{5} How, indeed, can we reconcile the absence of Third World development with the fact that there really should be such ample room for catch-up

\textsuperscript{5} Ibid., p. 11.
growth, and for innovative entrepreneurs, in politics as well as in the business world, to copy and emulate the successes of the industrialized world?

What holds for the Third World, may in these respects be said to hold also for the absence of broad success in the class of transition economics. With specific respect to the outcome of Russia’s attempted transition, Joseph Stiglitz chose, in the spring of 1999, to lash out at how the advocates of Russian shock therapy had failed to understand both basic economic theory and the more specific needs of Russian transition. Coming from a Chief Economist at the World Bank, who was soon to receive the Nobel Prize in economics, it was not surprising that his attack on fellow economists in the Ivy League would cause quite a stir.

Noting that “the modern critique of utopian social engineering was based particularly on the Bolshevik approach to the transition from capitalism to communism,” and that “the shock therapy approach tried to use many of the same principles for the reverse transition,” Stiglitz suggested a striking paradox: “It is almost as if many of the Western advisors just thought the Bolsheviks had the wrong textbooks instead of the whole wrong approach. With the right textbooks in their briefcases, the ‘market Bolsheviks’ would be able to fly into the post-socialist countries and use a peaceful version of Lenin’s methods to make the opposite transition.”

This is certainly not the place to venture any further into the policy debate. We shall, however, maintain that there do remain issues of a more fundamental importance that have not been sufficiently explored. What economic analysts in general have failed to consider, going beyond even Joseph Stiglitz’ severe critique, is under what conditions a free rein for short term profit and utility maximization will yield collectively rational outcomes, and when it will degenerate into a Hobbesian war of all against all.

The purpose of the present paper may be viewed against precisely this background. We shall use the Russian example as an illustration of how theoretical misconceptions caused reforms to be formulated in a way that set the stage for hyperdepression and a mass looting of state assets. The key component here concerns the predictable outcome of instantan deregulation, in an institutional environment where the state had a long tradition of being the sole effective owner of productive assets.

Ever since Adam Smith introduced the invisible hand and the “propensity to truck and barter,” it has been the creed of liberal market economy that short term utility and

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profit maximization will bring about outcomes that are socially superior. According to this ideology, freeing Russia’s productive potential from the “grabbing hand” of the state really should have brought about a tremendous boost in efficiency. How, then, could it be that the reverse would come to pass?

Reflecting on how Boris Yeltsin’s economic reform program could end in such failure, Mancur Olson effectively deflates the naïve belief in deregulation as a panacea: “Some enthusiasts for markets suppose that the only problem is that governments get in the way of the market and that private property is a natural and spontaneous creation.” This view he brands as “unquestionably and drastically wrong.” So much for the above-mentioned belief in Western-style “normality,” resting on a solid conviction that entrepreneurs will always choose to use productive assets in a productive manner, thus enhancing the welfare of all.

An important part of the reason why in the Russian case this would not be the chosen road was given by Alan Greenspan already in June 1997, well over a year before the financial meltdown that was to follow in August 1998: “Much of what we took for granted in our free market system and assumed to be human nature was not nature at all, but culture. The dismantling of the central planning function in an economy does not, as some had supposed, automatically establish a free market entrepreneurial system. There is a vast amount of capitalist culture and infrastructure underpinning market economies that has evolved over generations: laws, conventions, behaviors, and a wide variety of business professions and practices that have no important functions in a centrally planned economy.”

Let us accept the absence of “capitalist culture and infrastructure” as a common denominator that explains the lack of development in the Third World and of progress with transition in Eastern Europe. It then follows that we must be rather specific not only on what is understood here by capitalist “culture and infrastructure,” but also and even more so on the extent to which such essentially cultural parameters may be amenable to change by deliberate action.

The main point of the present paper is to argue that the Russian example offers a case of path dependent institutional specificity where it can be clearly seen how and why

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the belief in market economy as a societal default position of sorts was simply bound to produce disastrous results.\footnote{The argument on a long-term path dependence is laid out in great detail in Hedlund, Stefan (2005), \textit{Russian Path Dependence}, London: Routledge.} The title of the paper has been chosen to illustrate that the core of the problem lies in a long tradition of autocratic rule, which has served not only to thwart productive initiative from below. More seriously, it has also prompted the formulation of individual strategies for gain that rest on playing rule-evasive games of influence, thus making a mockery of the neoclassical belief in Smithian invisible hand utility maximization. The upcoming problem of Russian presidential succession in 2008 must be viewed – and understood – against precisely this background.

Before proceeding to look more specifically at the Russian case, we shall, however, have a few words to say about the three articles of faith that were mentioned above, all of which did seem fairly reasonable at the time.

\section*{Misconceptions}

As a general background, we may begin by recalling that the formulation of notions such as “shock therapy” and “systemic change” took place in an environment that was marked not only by beliefs in the “end of history” but also by a strong groundswell of policies aimed at privatizing state assets in the market economies of Western Europe, notably but not exclusively so in Great Britain. If we are to properly understand how and why the rhetoric of transition could achieve such a powerful grip on the minds of so many, it is necessary that our argument departs from precisely this intellectual milieu, where even the most complex of problems were seen to have simple solutions.

First and foremost, and highly appealing to economists in particular, was the belief in sure efficiency gains. In his grand synthesis of the debates that raged over shock therapy versus gradualism, Gérard Roland places much emphasis on precisely this dimension.\footnote{Roland, Gérard (2000), \textit{Transition and Economics: Politics, Markets and Firms}, Cambridge, MA: The MIT Press, ch. 13.} Believers in the since so vilified Washington Consensus were quite simply convinced that a transition from grossly inefficient central planning to superior market economy could not fail but to result in improvement. As their argument was so well in tune with basic economic theory, it was intuitively plausible and won a large following.
When it began to transpire that the actual outcome instead was to be plummeting production, to be known as “transformational recession,” the logical response was denial, based on sweeping reference to definitional confusion and statistical misrepresentation. As this line of defense in its turn was being overwhelmed by reality, there was a second fall-back position – to simply proclaim success and get out! This approach was spearheaded by Andrew Shleifer and Daniel Treisman, arguing that Russia had quite simply become a “normal country,” performing as normal countries in the middle income bracket do.¹²

The pivotal question that remains to be answered, beyond the at times heated policy debates on sequencing and such, is precisely how and why Russia’s embrace of markets and abandonment of central planning could lead to such disastrous results. Adam Smith surely would have found little trouble answering this question. Against no more than one single mention of the famed invisible hand, his magnum opus on *The Wealth of Nations* is rife with warnings about the dangers that rest in allowing a free rein for unconstrained individual utility and/or profit maximization. We shall find reason to return to this in a moment.

The second article of faith, the belief in homogeneity, came equally natural to economists. Based on neoclassical theory alone, it would be hard indeed to deny that all countries are essentially the same, and that culture simply does not matter. While national differences in dress, drinking songs and social antics may be both quaint and charming, such factors can have no relevance to macroeconomic policy.¹³ Thus, if it really was the case that all Soviet-type economies were the same, and if all could be persuaded to pursue the same type of economic reform policies, then it had to follow that they would all score the same type and rate of success. But was it really the case that they were all the same?

As it was becoming clear that some countries were about to make the grade, including integration into the EU, while others collapsed to the ignominious status of


¹³ The core of this creed was laid out by Larry Summers, then Chief Economist at the World Bank, at an October 1991 conference in Bangkok: “Spread the truth – the laws of economics are like the laws of engineering. One set of laws works everywhere.” (Quoted by Keegan, William (1993), *The Specter of Capitalism: The Future of the World Economy after the Fall of Communism*, London: Vintage, p. 109.)
failed states, and yet others became trapped in a mid-stream limbo, the initial response from the side of the pundits again was denial. If some were doing better than others, it simply must be because they were better at following the doctors’ orders. If the implementation of shock therapy produced recession or even depression, rather than rapid sustainable growth, then it must be because there had been no shock therapy. By thus equating success with shock therapy, and failure with the absence thereof, the argument was iron clad, but also rather pointless. Karl Popper would not have been impressed.

Again, the main question must concern not whether Russia did or did not implement shock therapy, but precisely how and why the “transitional” Russian economy that for so long was touted as such a great success in reality could be plunged into hyperdepression and be subjected to mass plunder.

Third, and in a sense most openly puzzling, is the presently ongoing reality check on the initial belief that all the countries concerned would succeed in completing their respective transitions. As it was becoming clear that there would be no rapid success, that some were failing and that others were getting stuck in a limbo, it was also becoming clear that there had been little or no thought given to what the end point would look like. Given that the very notion of “transition” implies a movement from point A to point B, one might have thought that some criteria should have been established for determining when the end point had been reached, and success – or indeed failure – could be proclaimed. Not so.

According to the EBRD, we have today a total of 26 “transition economies.” With the addition of newly independent Montenegro, the number will rise to 27. Beyond the obvious absurdity of portraying seven (soon to be nine) EU member states as being still in some form of transition, we may seriously question what the whole group of 27 highly diverse economies may be assumed to be in transition to? The question becomes particularly relevant with respect to countries like Russia and Ukraine that are presently wobbling. Is it, in such cases, really warranted to talk about any form of ongoing fundamental institutional or societal change, and if so in what direction?

Part of the reason why “transition” still holds such a sway over thinking and talking about “reform” in the former Soviet Bloc surely rests in vested interests and in organizational inertia. The EBRD was founded to support transition, and like all other institutes and organizations that were founded, or transformed, for the same purpose, it is

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14 The growing importance of this sorry category of states may be reflected in the recent addition of a special “Failed States Index” that is compiled by the Fund For Peace. In its 2006 index, Russia is in place 43, wedged in between Niger and Tajikistan (http://www.fundforpeace.org/programs/fsi/fsindex2006.php).
understandably reluctant to proclaim its mission completed and close up shop. There is little precedence indeed for such counter-intuitive behavior. After all, back in 1946 the by then long-defunct League of Nations was still busy playing tennis in Geneva. Based on this type of evidence alone, frustrated Poles and Estonians may look forward to remaining indefinitely bundled into a ragbag of formerly socialist economies locked into permanent transition.

More seriously, what we are dealing with here is profound terminological confusion. Whatever else may be said about the Cold War era, it did lend itself to simple categorization. There were the good guys and the bad guys. There were planned economies and market economies. There was the free world pitched against totalitarian regimes. There was the rule of law and there was the rule of men. And then it suddenly was no more.

Out of the rubble that was produced by the collapsed Soviet empire have now emerged a host of new states that really do not fit into the old paradigms. Even those that have made the grade in some respects remain special cases, which are hard to fit into neat tabulations of “normal” European countries. The ongoing struggle of the social sciences to come to grips with this new reality has resulted in a labeling game that at times has been both inventive and somehow amusing.¹⁵

What is at stake here, however, is something far more fundamental than beating Max Weber at his own turf. Behind the labeling game lurks an issue that really goes to the heart of what modern institutional theory is all about. If all the required formal rules are in place, if it looks like democracy and market economy, but fails to behave in the expected way, then what? More specifically, given that Russia has been given recognition as a market economy both by the EU and by the US, may we then conclude that the “capitalist culture and infrastructure” mentioned by Greenspan is indeed finally in place, including Smithian invisible hand profit maximization, consumer sovereignty, the golden rule, sanctity of property rights, a Lockean social contract – and an abstention from contract killings as a business method?

In the following, we shall argue that the Russian case offers a striking illustration of an institutional matrix that has very little in common with those features that underpin the Western “default” position. At the core of our argument, as the differentia specifica of the case at hand, we shall place the implications of a political culture, or a social capital,

¹⁵ The Prize in this category must go to Russian Communist Party leader Gennady Zyuganov’s reference to the Yeltsin regime as a “pedocracy” (due to the prominent role of the notorious “young reform economists”). This sure beats the euphemistic metaphor of “democratic backsliding.”
that is rooted in an autocratic mode of government. Let us begin by looking at the origins of Russian “political slavery.”

The Original Muscovite Slaves

According to diplomatic protocol in old Muscovy, those who wished to address the Grand Prince, and later the Tsar, had to do so in the third person diminuitive, with the submissive addition of “your slave.” In Russian, it could thus be Ya, Ivashka, kholop tvoi.\(^{16}\) If it was a question of personal appearance, rather than a written petition, protocol also called for ritual prostration, or kow tow, known in Russian as chelobitie.

This was so widely and diligently practiced that foreigners who visited Muscovy in the sixteenth century, such as Giles Fletcher or the baron Sigismund von Heberstein, would come away in amazement, telling shocking stories of how even senior boyars had developed calluses on their foreheads. If we add to this that physical punishment was meted out even to the most senior of nobles, it may come as no surprise that the outside perception of Muscovy would be that of a “rude and barbarous kingdom.”\(^{17}\)

What applied to Muscovy, moreover, would continue to mark the subsequently emerging Russian empire. While the practice of kowtow was formally stopped under Peter the Great, it would remain customary long thereafter for subjects petitioning the crown to refer to themselves as slaves, albeit by another name, that of raby. Peter would also demonstrate a strong personal preference for indiscriminate physical punishment. It would only be with Catherine’s Charter of the Nobility, in 1785, that nobles were formally exempt from being beaten with the knout.

It is symptomatic of the staying power of this culture of submission that so many of the stories that were told about sixteenth century Muscovy could still be told about the nineteenth century Russian Empire, notably so by the French Marquis de Custine. His three month “Journey through Eternal Russia,”\(^{18}\) undertaken in 1839, forms a strange pendant to Tocqueville’s previous nine month tour of America, from which the latter


returned filled with admiration of what the New World was bringing about. Custine, in contrast, “went to Russia to document the advantages of autocracy and confirm his prejudices against popular government. But it was there that he discovered the evils of autocracy, and he returned to France a strong advocate of constitutions.”

While accounts such as these have left a major imprint on outside perceptions of the nature of Russia, we must seriously question what type of reality is reflected therein. Can we really conclude that Russia from Muscovy onwards was an Asiatic despotism, where even members of the senior nobility were held in complete submission, being always fearful for their lives? In seeking to answer this question, it is important to distinguish between what was mere ceremony and what followed logically from the core elements of the institutional matrix as such.

On the former count, we may safely agree with Marshall Poe, when he presents much of the official Muscovite protocol as being derived from the only role models that were available, namely the Mongols. The fact that the Muscovites played the role of serfs before their master cannot be construed as evidence that they really viewed themselves as true slaves of the tsar. On the contrary, they probably took great pride in being allowed to take part in such ceremonies, and viewed their formal submission as a sign of distinction.

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 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.

It is certainly true that the system did have a sinister side, in the form of pervasive repression and a widespread practice of denunciation. What was known in old Muscovy as “political poruka” implied a duty for all subjects to report at once all forms of speech and action (slovo i delo) that might harbor critique or threats against the autocrat. Over time, the political police would assume a number of different guises, from the Razryadnyi prikaz under Ivan the Terrible and the Preobrazhenskii prikaz under Peter the Great, to the Third Section under Nikolai I and the Okhrana under the last of the Tsars, leading

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19 Ibid., p. xiii.
over to the Cheka that was introduced by Lenin, and that in its turn would have successors under different names.

While the terror that has been implemented by these various organizations has been real enough, and while the political police has arguably been the only truly efficient part of traditional Russian bureaucracy, there lies an analytical danger in becoming mesmerized by terror and slavery as such. If the autocratic regime had been maintained by repression alone, then a collapse of that regime should have paved the way for true “systemic change,” defined here as the introduction of accountability. Yet, this has not been the case. With every instance of collapse and restoration, we have seen the very same old mode of autocratic rule being reintroduced.

There can be no more striking illustration of this than the election, by a zemskii sobor that was convened in 1613, of Mikhail Romanov to be Tsar of Russia. Although the Muscovite state had literally collapsed, and although it was up to members of the dvoryanstvo to elect from within their own ranks a new tsar, they abstained from imposing on their new leader any form of constraints or mechanisms of accountability. It was, quite simply, a case of restoring the status quo ante.

In the following, we shall argue that this reflects a deeply rooted path dependence that is well in tune with classic continuity theories of Russian history.\textsuperscript{22} Without delving too deep into the Mongol-Byzantine conundrum, we shall argue that the real key lies in the fact that amongst the Muscovite nobility the norms of autocratic, i.e. unaccountable, rule had been firmly endogenized and rationalized as “honor,” or chest. Before proceeding to show what implications this argument has for understanding the failures of Russian modern-day transition, we shall digress to look more closely at how the formal dimensions of the Muscovite institutional matrix were introduced.

The main gist of the argument will be that there was a driving force, in the form of dire needs for a multitude of weak principalities to stand up in defense against marauding band of hostile nomadic peoples to the east. The solution was geared into mobilizing resources for joint defense, and it rested on a number of formal arrangements that must be viewed as quite rational at the time. The analytical point concerns the fact that what brought success in the fifteenth and sixteenth centuries, would over time become an increasingly stubborn obstacle to adaptation to changing external

circumstances. Moving into the twentieth century with fifteenth century institutions would come to present quite a few problems, including two further cases of systemic collapse, in 1971 and in 1991.

The institutional matrix that the Muscovites evolved, in order 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 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 the 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 *samoderzhave*, 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 formal 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. 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

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23 The following has been pilfered, and adapted, from Hedlund, Stefan (2006), “Vladimir the Great, Grand Prince of Muscovy: Resurrecting the Russian Service State,” *Europe-Asia Studies*, vol. 58, no. 5.
that the second step had to entail a suppression of all 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.

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, 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 Richard Pipes (following Weber) refers to as the “patrimonial” regime of old Russia.25

As in the case of autocratic government, we shall be careful here with labels. 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, this is an area where much ink may be spilt without the opposing sides coming much closer to any form of agreement.27

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.28 If a conflict of interest arose, the outcome would be given in advance, and since this was clearly known to all, it makes little analytical sense to speak of an enforceable economic or legal institution of property rights. Whether instead we should speak of “conditional rights” or simply of an absence of property rights may again be reduced to a matter of taste rather than of principle.

24 The standard phrase employed stipulated that “the boyars and servitors who dwell among us shall be at liberty to come and go” (Kluchevsky, V. O. (1911), A History of Russia, Vol. 1, London: J. M. Dent & Sons, p. 263).
28 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.
Approaching the matter from a more theoretical perspective, we may recall here 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.”\(^{29}\) This also illustrates how seriously flawed the initially conventional wisdom was, amongst reformers who pitched the state against the market.

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 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.\(^{30}\) 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 at will 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

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\(^{29}\) Olson, 1995, op. cit., p. 458.

\(^{30}\) 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.
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.

The distinction serves to capture that while rent seeking actors in a Western context are viewed as skillfully predating 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, but there was never any sense of enforceable 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, forcing them to constantly 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 strategies and rationalizing norms were 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 religious Orthodoxy 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 in Russian tradition, 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 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 pretty 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. The absence of a clear dividing line between power and property resulted in a seeming blurred line of division between politics and business. The decisions taken by actors within both the political and the economic spheres, 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.”

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32 As an illustration, it may be noted that at the peak of its power, the St. Sergius Monastery of the Trinity had 100,000 peasant “souls,” cultivating estates that were scattered over 15 provinces (Pipes, 1974, op. cit., p. 226).
The real essence of the Muscovite arrangement was that the state, or more specifically the autocracy, was the only force that could initiate change or focus economic activity. In modern parlance we might say that the state was the sole engine of growth. As such it was also in a position of complete dominance over how the spoils of potential progress would be divided. From this perspective, the subsequent Soviet command economy comes across as a logical downstream manifestation of principles that had been introduced much earlier.

The model that the Muscovites built, and that over time would show such resistance to even the most determined of reformers, is striking in two very different ways. The upside lies in the fact that it did serve to overcome seemingly impossible odds, and to transform a remote neck in the woods into a superpower with global reach. As many observers have pointed out, this was no mean achievement.

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.”

The downside of this success story was that the regime of forced mobilization of resources that served so well to overcome the security threats also caused, in the process, substantial collateral damage to the country’s institutional evolution. The price that had to be paid for the introduction of an autocratic mode of command and control can be measured not only in a lack of entrepreneurship and innovation from below. Far more serious, it also entailed the entrenchment of a weak state. From an institutional perspective, a strong state represents an arrangement that allows vital functions to continue operating even at times of severe crisis of power. The Muscovite state in this sense was – and the Russian state still remains – weak. At times of severe crisis, the model does not bend, it breaks, and in the wake of a collapse of power follows a “time of trouble.” We shall have reason to return to this in a moment.

The first 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. The outcome may be viewed as the first real command economy in European history –

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deploying instruments of forced extraction in order to enhance the country’s war-fighting capabilities. For all the imagery of Peter the Great as a great reformer, Pipes still refers to his rule as “the apogee of tsarist patrimonialism.”

While the post-Petrine era was marked by a broad process of reforms that towards the end of the nineteenth century had gained quite an impressive momentum, it will have to remain a fact that in the end the model would not bend, but break. This is not the place to enter into the debate on whether towards the turn of the century Russia really was on her way to becoming a “normal” European state. Suffice it here to note that this was not to be, and that the Soviet era would come to represent a full restoration of all the main pillars of the Muscovite matrix – autocracy, absent property rights and legal regulation, kormlenie instead of money, communist ideology to replace religious orthodoxy, instrumental xenophobia to support forced mobilization of resources for the country’s perceived military needs.

When the Soviet order finally collapsed, it was a momentous event that triggered all of those beliefs and expectations that were cited above. At the end of history, reformers believed themselves to have a clean slate on which to write down their visions of systemic change. Essentially, it was all about ejecting the old system diskette, inserting a new one, and rebooting the system. Reality, as we now all know, would have it somewhat differently.

Yeltsin’s Oligarchs

The real essence of the system that emerged under Yeltsin was that of facilitating personal enrichment for the few at the expense of the many. While it is certainly true that there were frills of various kinds involved also for the Yeltsin family, the real reason why the Kremlin would choose to engage in such a basically venal compact was more likely related to power and glory.

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37 Martin Malia’s argument against the “continuity theory” holds that while Russia did get off to a bad start, since the time of Peter the Great she has been progressing along the same path as the rest of Europe, only with a 50 year lag. In his view, it is “Soviet Russia that represents both maximal divergence from European norms and the great aberration in Russia’s own development.” (Malia, op. cit., pp. 12-14.) If correct, this hypothesis would lead us to believe that post-Soviet adjustment should represent a return to European normality, a view that was also at the heart of the Washington Consensus, albeit perhaps implicitly so.
Boris Yeltsin’s top priority, trumping all other ambitions, was to be recognized as a modern-day Russian Tsar, and to be treated with due respect. This was particularly worrisome for the very simple reason that it was so obviously a question of power for its own sake. In return for playing along with his blatant retrogression to at least ceremonial tsarism, Yeltsin’s cronies were allowed to help themselves not only to the assets of the state but also to a steady inflow of foreign credits that were easily converted into stealable cash.\(^{38}\)

While it is easy enough to argue that this represented something that was very far removed from the Western ideal of democracy and a rules-based market economy, it may not be quite as obvious that it also represented a tremendous deviation from Russian tradition. In order to appreciate why the latter was the case, we may recall from above that from the times of Muscovy and Peter the Great until the end of the Soviet Union the Russian state had served not only as the sole source of institutional change but also as the sole engine of growth.

The stubborn refusal by the autocracy to allow any form of autonomous interest formation, or any form of initiative from below, placed a heavy imprint on economic development at large. Periods of rapid economic growth resulted from policies of forced mobilization from above, and periods of reform were driven by government programs that often were prompted by defeat in war (notably so in the cases of the Crimean war and the war against Japan).

We may usefully recall here Alexander Gerschenkron’s famous treatise on “Economic Backwardness in Historical Perspective,” where he argues, as “the main proposition” of his essay, that due to the very nature of backwardness, attempts by backward countries to undertake rapid industrialization will by necessity produce results that are different from those recorded in the already more advanced countries. Differences in both speed and character of industrialization will be derived from the application of different institutional instruments (i.e. formal rules), as well as from the intellectual climate (i.e. informal norms) in which industrialization was undertaken.\(^{39}\)

With particular reference to the “abysmal economic backwardness of Russia,” he lays out a pattern of development that is well in line with what we have argued above. Moved by military interests, the state assumes “the role of primary agent in propelling the


economic progress.” Given the ebb and flow in military needs, this in turn imparts a “peculiarly jerky character” to economic development. In times of intensive development, great burdens will be imposed on the population and “severe measures of oppression” will be necessary to prevent flight into distant frontier regions.

The outcome will be a cyclical pattern of economic development, which forms a pendant to the cyclical or pendulum pattern in economic reform: “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 beyond the limits of physical endurance of the population and long periods of economic stagnation were the inevitable consequences.”

As we have noted above, the achievements of Russia’s strategy of mobilization from Muscovy onwards have been impressive indeed, defeating seemingly overwhelming enemies and transforming a small backward neck in the woods into a Great Power that for a brief period even played a role as a Superpower with global reach. The downside, however, is that the achievements of military might have come at a substantial price, to be measured in terms of a complete atrophy of all such institutions that promote and facilitate constructive and market friendly initiative from below.

We may illustrate the latter point by contrasting against Mancur Olson’s emphasis on the needs for “market-augmenting government,” more specifically defined as “a government powerful enough to create and protect property rights and to enforce contracts, yet constrained so as to not, by its own actions, deprive individuals of those same rights.” The type of government that Olson sees as necessary for well functioning markets represents something of a diametric opposite to the type of rule that for centuries has been Russian normality.

While enforceable rights to private property will have to figure high on the list of what has been missing from Russian tradition, we must not forget some of the more subtle consequences that are also bound to be associated with a rule-evasive culture. Once actors realize that their actions are governed not by transparent rules but by the personal approval of their superiors, and that outcomes of those actions can thus not be predicted, neither in terms of rewards nor of penalties, they will then be simply compelled to engage in those types of opaque games of personal influence that have been – and still remain – so characteristic of Russian political culture. This in turn will, also by

40 Ibid., p. 17.
necessity, give rise to the phenomenon of massive and endemic corruption that that stands out as something of a dark hallmark of Russian tradition.\(^{42}\)

What goes completely missing here is the necessary interaction between those sets of formal rules and informal norms that together make up Greenspan’s “capitalist culture and infrastructure,” and that jointly ensure that a functioning rules-based economy will be at all possible. In the liberal economic tradition, much emphasis has been placed on the role of mutually beneficial transactions, on markets that are self-enforcing. Within this tradition, it can be easily shown that short term utility maximization will indeed be guided by the invisible hand, to socially superior outcomes.

While Adam Smith himself would likely not have been thrilled by the way in which his thinking was used to defend Russian greed-based shock therapeutic deregulation,\(^{43}\) there is more at stake here than the risks of predatory behavior by individual actors. In order to capture the broader picture, Olson also introduces the notion of “socially contrived” markets that are crucially dependent on the existence of a third party, in the form of a state, that can define and uphold the rule of law. Transactions on such markets will be “rights intensive,” entailing both property rights and contract rights that are impartially enforceable in a court of law.\(^{44}\)

In a discussion of governance and the distribution of transactions, Oliver Williamson captures very much the same. Suggesting a three-part division into spot-market trading, long-term contracting and hierarchy, he argues that neither spot-market nor hierarchical transactions will need much support from the judiciary: “Disappointed spot-market traders can easily limit their exposure and can seek relief by terminating and turning to other traders. And internal organization is its own court of ultimate appeal. By contrast, transactions in the middle range can be difficult to stabilize.”\(^{45}\)

Williamson’s main point is that a failure to organize the judiciary in “an informed and uncorrupted manner” will lead transactions in the middle range to gravitate towards

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\(^{42}\) Richard Hellie claims that this disease began in earnest in the Petrine era: “The process of corruption was slow, and made little headway (as far as I can tell) until the end of the reign of Peter the Great, who accelerated it when he neglected to pay many government officials.” (Hellie, Richard (2005), “The Structure of Russian Imperial History,” History and Theory, Theme issue, no. 44, p. 94.)

\(^{43}\) To back this claim, it ought to be sufficient to recall the opening lines from his first great work, where it was Smith the moral philosopher rather than Smith the political economist who spoke: “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it.” (Smith Adam (1976), Theory of Moral Sentiments, Oxford: Clarendon Press, p. 9.)

\(^{44}\) Olson, 2000, op. cit., ss. 183-95.

one or the other of the polar extremes: “The upshot is that the quality of a judiciary can be inferred indirectly: a high-performance economy (expressed in governance terms) will support more transactions in the middle range than will an economy with a problematic judiciary. Put differently, in a low performance economy the distribution of transactions will be more bimodal – with more spot-market and hierarchical transactions and fewer middle-range transactions.”46

It is against precisely this background that we must view the Soviet collapse in 1991, which entailed not only territorial fragmentation but also mass looting of state assets. The parallel in Russian minds goes to both 1917, when the Russian empire collapsed, and to 1606 when the Muscovite state broke down. The implication in all three cases is that under an order that allows no initiative from below, and where the state is both unable and unwilling to make a credible commitment to impartially upholding the rules of the game, the system as such is crucially dependent on having a strong central authority. If it breaks down, the system breaks down. The ensuing freeing up of market forces will then be tantamount to mass plunder.

These observations provide the real key to understanding both the failures of the Yeltsin regime and the prospects for that of Putin. Coming out of a Soviet system where the interests of the state had always been placed above those of the population at large, the Yeltsin era did mark a radical new departure. For the first time in Russian history, it heralded an order where private interest was placed before the interests of the state, or the autocracy.

This was most clearly visible in the realm of national security, where the Kremlin suddenly appeared as though there would never again be a need for major defense of the Motherland. If we accept that Russia’s economic growth strategy had been based, for centuries, on an ambition to enhance the country’s war-fighting capabilities by deploying a regime of forced mobilization of resources from above, this turn of events really was remarkable.

The decision that was taken by the Gaidar government in 1992, to undertake a sweeping cancellation of state orders to the famed military-industrial complex, then known in Russian as the voenno-promyshlennyi kompleks, or simply VPK, represented the first time ever that the Kremlin deliberately decided to disarm itself and to give up all hopes of maintaining armed parity with its enemies, real or imagined.

46 Ibid., pp. 181-82.
Knowing that the VPK had formed the real backbone of the Soviet economy, accounting for maybe 30 percent of recorded peacetime GDP,\textsuperscript{47} it should have come as no surprise that simply giving up on sustaining it would have far-reaching consequences. The most visible such was that over the years 1991-98, the output of the VPK dropped by more than 80 percent, leaving massive excess capacity.\textsuperscript{48} Less visible, but profoundly more important, was the fact that in one fell swoop the state was deprived of effective control over the assets of the VPK. The combined outcome of privatization and cancellation of state orders was that massive resources were suddenly put up for grabs.

In order to appreciate the full extent of the ensuing bonanza, we must note that Soviet military doctrine had called for constant readiness to mobilize for multiple wars and all thinkable attack scenarios.\textsuperscript{49} The implication was that the Soviet government would maintain not only strategic reserves of the kinds that most nations stockpile. By placing an obligation on all enterprises within the VPK to be ready at short notice to surge the output of military materiel by numerous multiples, it also called for the buildup and maintenance of special “mobilization reserves.” Included in the latter category were massive hoards of things like fuel and strategic metals, as well as whole production lines that were kept idle, just in case.\textsuperscript{50} This incredible waste of resources that surely could have been put to better use provides an impression of just how seriously the Soviet leadership took the matter of military preparedness.

The main outcome of Gaidar’s decision to scale down the VPK was that the ownership of all these assets was suddenly called into doubt. Under a guided policy of conversion and restructuring, controlled sales could have generated funds that might perhaps have been used to finance retooling and technological upgrading for civilian use. As it was, however, those who were in charge, and who no longer faced any effective control from above, were now given a \textit{de facto} free rein to loot and to begin dumping

\textsuperscript{47} There have been a number of various estimates presented over the years. This one is the latest, derived from prominent Russian insiders in positions to know. (Cited by Rosefielde, Steven (2002), “Back to the Future? Prospects for Russia’s Military-Industrial Revival,” \textit{Orbis}, vol. 46, no. 3, pp. 505-06.)


\textsuperscript{49} The impact of “structural militarization” on the Russian economy is discussed in Rosefielde, Steven (2005), \textit{Russia in the 21th Century: The Prodigal Superpower}, Cambridge: Cambridge University Press, ch. 3.

\textsuperscript{50} Personal information from Vitaly Shlykov, who was head of the VPK under Boris Yeltsin.
metals on world markets. The magnitude of the operation could be clearly seen in a severe depression of prices on, say, the London Metal Exchange.\(^5\)

As a sobering contrast, we may recall the three articles of faith that were cited at the outset of the present paper, namely the beliefs in sure efficiency gains, in equal rates of progress amongst all the economies concerned, and in the eventual success of transition as a forgone conclusion. The ongoing reality check on these at the time seemingly self-evident beliefs also sheds some powerful light on the associated conviction of “normality,” i.e. that market economy may be viewed as a default position of sorts.

While there have since been many different reasons suggested to explain how and why all transition economies would instead be thrown into “transformational recession,” with varying degrees of severity, the plight of Russia goes beyond such mainly technical reasoning. What Russia’s failed transition brings home is that under certain types of institutional arrangements, placing a wager on deregulation and a minimal state will be tantamount to courting disaster.

Viewed from this perspective, the system of oligarch-run business that became the true hallmark of the Yeltsin era had two vital defining characteristics, both of which stood in sharp contrast to all previous experience of Russian history.

One was that via different schemes of “privatization,” known in Russian as prikhvatisatsiya, the country’s emerging class of new business tycoons were granted formal rights to property in some of the nation’s most valuable assets.\(^5\)\(^2\) The essence of this arrangement was to capture the worst of two possible worlds. While savvy operators with good connections were thus given a carte blanche to dispose of the usufruct, without any concern for the consequences, they would also be held in complete uncertainty over whether tomorrow their formal “property rights” would have any value whatsoever. Faced with such insecurity, and given that the perceived main victim of their predation was a traditionally illegitimate state, mass looting quite simply became the rational strategy. As it used to be said under Stalin, “one who does not steal from the state, steals from his family.”

The second and perhaps even more economically lethal characteristic of the Yeltsin era, which the Chinese studiously avoided, was that of lifting all capital controls.

\(^{51}\) As anecdotal evidence, we may note that so much metal passed through Estonia that for a few enchanted years this tiny country became one of the world’s leading exporters, and the capital city came to be known as MeTallinn.

By allowing the emerging oligarchs to cultivate good personal relations with foreign markets and foreign partners, the Kremlin served up on a gold platter amazing opportunities for the cronies of the regime to move their ill-gotten wealth to safe havens abroad. The outcome, unsurprisingly, was a flight of capital that would assume stunning proportions.53

When Vladimir Putin was eased into his new Kremlin office, following Boris Yeltsin’s surprise resignation, he was looking at a landscape that was clearly reminiscent of scorched earth.54 Close to a decade of predatory capitalism, of the most rude and obscene form, had left devastating consequences, measured in a population meltdown, a ravaged system of higher education, and a spread of organized crime and corruption that was simply astounding. The challenge to the new president was to overcome this legacy, whilst remaining beholden to the man who had anointed him, and who was ultimately responsible for the previous devastation.

Putin’s Boyars and the Problem of 2008

The mainstay of Putin’s ambition to make Russia great again would rest in reversing both of those developments that were presented above as defining characteristics of the Yeltsin era, namely property rights and access to safe havens abroad. By reintroducing command and control, over what Lenin once referred to as the “commanding heights” of the economy, the Kremlin has been clearly focused on driving home to the oligarchs that their rights to property will once again be conditional upon service to the tsar, and that their options to run off to safe havens abroad will again be effectively sealed off.

While his first term in office was still unfolding, there was a great deal of uncertainty and debate over how to interpret the ambitions of the new master of the Kremlin. Following his re-election to a second term, the conclusion of the Yukos affair, and the murder of Anna Politkovskaya, it can be seen more clearly how neatly the pieces in the puzzle are falling into place. The essence of it all is fairly simple. The romance


54 Meier, Andrew (2003), Black Earth: A Journey through Russia after the Fall, New York: Norton.
with Western models has come to an end, and the Kremlin is busy reverting to old Russian ways of doing things.

This should not be taken to mean that there is an ambition to revert to Communism or to the Soviet order. The new political class that is forming in and around the Kremlin has little interest indeed in regurgitating Marxism-Leninism, and it realizes fine well that there is nothing to be had from going back to the paraphernalia of state planning of the Gosplan kind. Putin’s program for making Russia great again is far more subtle, and in a sense more worrisome than that.

Perhaps the best way of portraying it is to borrow Richard Hellie’s notion of a Russian “service state,” a concept that entails imposing strict hierarchical bonds of allegiance and obedience. In his presentation, long-term Russian history has been marked by three cases of “service class revolutions” (under Ivan IV, Peter the Great and Joseph Stalin). The respective periods following upon these “revolutions” are concluded by “times of trouble” that path dependently lead up to a restoration of the old order.

This metaphor is well in line with our Gerschenkron-inspired model of forced mobilization from above, which leads cyclically to exhaustion, collapse and restoration of the status quo ante. The main question to be asked today is if Hellie is correct in speculating whether developments under Putin should be viewed as a “fourth service class revolution.”

The dynamics of Russian long-term development may be viewed as a deeply rooted pattern whereby the rulers tend over time to respond to similar problems (perceived threats) by deploying similar solutions (service class revolutions). As Hellie puts it, it is the “repetition of service class revolutions and the channeling of resources into a garrison state” that drives development and that forms “perhaps the most striking pattern in modern Russian history.” The fact, moreover, “that the Russians took similar actions to respond to perceived threats three times seems to be a perfect example of path dependency.”

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56 This use of the notion of repeated “times of trouble” as interludes or punctuations between cycles of repression and liberalization is central also to Alexander Yanov’s theory on the origin and evolution of Russian autocracy. (Yanov, Alexander (1981), The Origins of Autocracy: Ivan the Terrible in Russian History, Berkeley and Los Angeles, CA: The University of California Press.) See especially his presentation of the “Political Spiral” (ibid., pp. 59-65).
57 Hellie, 2005, op. cit., p. 112.
58 Ibid., p. 89.
By far the most important component of this path dependency lies in the evolution of norms that help rationalize submission to autocratic rule as being in the individual’s own best interest. This, we shall argue, has far greater explanatory power than the associated practice of repression. The essence of the service state is that the servitors have no desire to implement any fundamental change, in a system to which they have already adapted and that serves them well. Already by the early seventeenth century, as Robert Crummey puts it, “the Russian nobility wore the harness of service like a well-trained horse.”

The implication of presenting current developments against this historical backdrop is that it places in focus the traditional primacy, from Muscovy onwards, of opaque and personalized games of influence over transparent and enforceable rules of the game. There is nothing really remarkable about the staying power of this culturally embedded feature. In a country that rests on the rule of men rather than on the rule of law, rules and regulations will always be trumped by personal friendships and loyalties. Russians know this fine well. It is the way that the game has been played for centuries, and they have amassed great skills in playing it.

Given their investments in human capital, and the associated evolution of norms and values to support the Muscovite model as a just and rational system, it was certainly to be expected that any ambition to undertake “systemic change” would encounter heavy resistance. Transiting to a new order that would be based on transparent and enforceable rules would have entailed a massive destruction both of human capital and of long-established networks of corruption. In consequence, it would thus also have implied a drastic shift in fortunes between the veterans of the old system and the rising stars of the new. It is hardly surprising that the outcome would be what Richard Rose refers to as an “anti-modern” society, combining elements of old and new in a way that defeats economic analysis and is best left for anthropologists to grapple with.

In an associated dimension, it was also logical that the transition from Yeltsin to Putin would imply a whole new set of friends being brought into the game. A closer look at the new guard that makes up Putin’s friends will show two important features, namely

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that they are almost all from the old KGB and that they are almost all in business.\textsuperscript{61} While the former adds an ominous shade to questions of democracy and human rights, the latter tells us much about how the game will continue to unfold. The business interests of Putin’s men have spread out of the energy complex, into transport, arms and metals. What they are busy creating may be viewed as a holding company that controls a steadily expanding share of Russian GDP, that places massive slush funds at the Kremlin’s disposal, and that constitutes a real powerhouse for the conduct of a neo-imperial foreign policy.

At a casual glance, one might be tempted to say that this was precisely what emerged with the oligarchs under Yeltsin, but that would miss the whole point of the argument. The crucial difference between Yeltsin’s oligarchs and Putin’s neo-boyars again lies in the two dimensions that were indicated above as hallmarks of the Yeltsin era, namely property rights and access to foreign friends. While some of the most favored amongst the new class of power holders will clearly be both wealthy and powerful, they will also be held in constant awareness of the fragility of their personal positions.

Where Yeltsin’s cronies had at least formal rights to property, and very real rights to move their wealth abroad, Putin’s men have neither. They control their assets only for as long as they please the Kremlin, and they have no safe places abroad where they would be welcome. Like the boyars of old Muscovy, they will thus be completely dependent on their tsar – they have no personal property, and they are unable to enter into the service of another prince.

From this perspective, the present-day relation between President Vladimir Putin and ex-oligarch Boris Berezovsky may be viewed in terms similar to the classic relation between Grand Prince Ivan III and Prince Andrei Kurbskii, who fled Muscovy and entered into the service of Lithuania. Having betrayed their respective masters, both become apostate and faced life-long exile.

The first practical challenge that faced President Putin was to reverse all those formal steps towards democracy and a rules-based economy that had been taken under Yeltsin, and that might over time have come to be imbued also with the culture of democracy and of the rule of law. In a sense, his agenda might be likened to what Lenin set out to do after Great October. In its final decades, the Russian Empire had been moving clearly in the direction of Westernization; suffice it here to recall the legal

\textsuperscript{61} For a detailed survey of the membership of Putin’s elite, and of the blurred line of demarcation between “liberals” and “siloviki,” see Kryshtanovskaya, Olga and Stephen White (2005), “Inside the Putin Court: A Research Note,” \textit{Europe-Asia Studies}, vol. 57, no. 7.
reforms of Alexander II, the Basic Law of 1906, the general elections to a new Duma, the land reform under Stolypin, and the emerging class of urban merchants. After 1917, all of this was to be swiftly and deliberately eradicated.

What both examples illustrate is that changes in the formal rules will have the desired effects, and achieve sustainability, only if they are accompanied by a supporting transformation of associated norms and values, and the latter, as North emphatically drives home, will occur only gradually, if at all. The hotly debated question of whether in its final decades the Russian Empire really was about to join Europe hinges on precisely this, namely on whether informal norms – public as well as private – were being adjusted to fit and support the emerging new set of Western rules and practices.

If at the time of Great October this still appeared doubtful, despite several decades of fundamental reforms, then it should be quite clear that less than a decade of Yeltsinite chaos and confusion stood an even slimmer chance of achieving real and sustainable institutional change. Support for the counter-proposition, namely that Russian norms and values have remained overwhelmingly alien to the Western way, seems so much easier to find.

It is both striking and ominous that Putin’s carefully balanced policy of cautiously rehabilitating Joseph Stalin, whilst adhering to the formal principles of market-based globalization, entails so many features that find a great deal of support amongst the Russian population at large. A quick look at recent opinion polls will tell us that Russians overwhelmingly feel that democracy is a fraud, that private property is façade for corruption, and that outsiders are not to be trusted. They feel comfortable with a one-party state, place order before freedom, and have little problem with censorship of the media. Above all, they want Russia to be a great power again, and they see more government involvement in the country’s economic life as a way to reach that goal. As a summary impression, Pipes maintains that these polls contain “a good deal of evidence that the antidemocratic, antilibertarian actions of the current administration are not being inflicted on the Russian people but are actually supported by them.”

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62 In his 1993 Nobel Prize lecture, North emphasized that any attempt at institutional change that departs too far from or fails to alter existing systems of norms will be simply bound to fail, or to produce powerful backlash effects. He 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.)

At the core of the Kremlin’s ambitions to make Russia great again we may find the country’s energy complex. From a purely economic and business point of view, this is the area where the transformation of attitudes from Yeltsin to Putin has been by far the most striking. What used to be viewed as an open field for foreign investors and grand policy pundits has been transformed into a closed shop where the Kremlin rules supreme. Russia’s vast reserves of oil and gas are presently being harnessed to construct an economic powerhouse, on the foundations of which a new system of political power may be built.

While most pundits were still debating the seeming irrationality of the Kremlin’s onslaught against Yukos, then viewed as the crown jewel of the country’s oil industry, some perceptive analysts could already see clearly the long-term political rationality. Peter Lavelle, for example, saw Putin being rationally “determined to re-order Russia’s oil patch to serve national and international interests.” More recently, Vladimir Shlapentokh has captured the same, writing about “Russia as a Newborn Superpower: Putin as the Lord of Oil and Gas.”

Following the conclusion of the Yukos “affair,” we can see the contours of this new powerhouse. At its core are two energy giants. One is state-owned Rosneft, which following the absorption of Yuganskneftegaz has emerged as Russia’s second largest oil company. The other is Gazprom, whose known reserves (measured in barrels of oil equivalents) are the third largest in the world, and whose daily output of gas equals 10.3 million barrels of oil. Although often at odds with each other, both are firmly under Kremlin control and together they provide a formidable boost to foreign policy.

It is already well known how the energy weapon has been wielded within the CIS, to boost Russian influence in what the Kremlin likes to call its “near abroad.” As a case in point, we may contrast the “gas crisis” that marked relations between Moscow and Kiev at the outset of 2006, against the friendly deal that was struck in mid-October. With the pro-Western Yushchenko/Timoshenko team in place, Moscow was prepared to shut down deliveries. With the newly elected and more pro-Moscow Viktor Yanukovich, however, a deal was easy to reach, albeit associated with stark warnings about the

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66 Cited from Johnson’s Russia List, February 9, 2006, item 18.
consequences should pro-Western policies be resumed. Even more worrisome is the
sordid story of former German Chancellor Gerhard Schroeder, the EU, and the Russian-
German gas pipeline that many Poles view as a new Molotov-Ribbentrop Pact.68

The bottom line, however, is concerned with so much more than just foreign and
energy policy, or even with simply putting cash into the pockets of a new set of cronies.
What is really at stake is a complete reconfiguration of domestic power. The core driver
is a return to the traditional emphasis on mobilization of resources from above, in order to
support national security interests. Russia’s national energy strategy states this quite
explicitly, and it has served to trigger a movement backwards into the future.

It has been both easy and fascinating to witness how all of the main elements of
the Muscovite institutional matrix are being reintroduced. Prime importance has logically
been assigned to the restoration of autocracy, via the suppression of all ambitions to
introduce accountability. The cowing of the duma, the clipping of regional barons and the
suppression of all independent media have all been parts of this ambition. As a corollary,
the attempt by the Yeltsin regime to introduce enforceable rights to private property has
been replaced by a reintroduction of conditionality upon service to the Kremlin. Mikhail
Khodorkovsky has paid dearly for failing to read the signs of this reversal, and foreign
investors are beginning to learn provisions in Russian law about a formal “right” to own
up to 49 percent of Russian energy companies are conditional upon the president’s “rule
of thumb”, holding that the effective limit should be 20-25 percent. The servitors that are
crowding for favored places at court are yet again being rewarded by fattening kormlenie
postings that may at any time be withdrawn.

For the population at large, communist ideology has outlived its role and is being
replaced by traditional Russian nationalism, laced with an increasing role both for
religious Orthodoxy and a cult of personality that promoted the Leader as a true Russian
hero and Savior. The associated xenophobia has implications not only for foreign policy,
but also for the domestic climate. It bears noting here that what is often referred to as
traditional Russian xenophobia has in reality always been rooted in and derived from a
deep sense of hostility by the Orthodox Church towards rival western Christians, mainly
Catholics. Russian relations towards Muslims and other peoples to the east and the south
have never been plagued by such sentiment. Under Putin, that may be about to change for
the worse, with increasing emphasis being placed on the Muslim “enemy within”.

68 Reference to this deal as a new “Molotov-Ribbentrop Pact” appeared in several Polish media. See further
BBC News, September 8, 2005 (http://77newsvote.bbc.co.uk), and Deutsche Welle, September 8, 2005
(http://www.dw-world.de).
The main question for speculation at the moment concerns what may happen in and around the Kremlin in 2008. Much ink is being spilt over a variety of more or less fanciful scenarios that see Putin either stepping down or remaining in place. This throwback to Soviet-era Kremlinology is highly reflective of how the traditional rule-evasive culture is, yet again, winning out over the attempt to introduce Western-style transparency and rules-based politics.

What we are presently witnessing, as a manifestation of Hellie’s “fourth service class revolution,” is the formation of a new boyar duma, an elite group of men who control the commanding heights of both the economy and the political sphere. Like the boyars of old, and in stark contrast to Yeltsin’s oligarchs, they will be completely dependent on, and thus unconditionally loyal to their tsar.

Although we can witness how their influence is expanding into sectors outside the energy complex, the exact nature of their roles and activities will remain opaque. While crucially needed patronage from the tsar will remain forever in doubt, their own informal power over subordinates will be vastly greater than their formal positions indicate. As all and sundry will soon enough comprehend, one simply does not mess with a boyar who has the ear of the tsar.

This, in conclusion, appears to be the real and lasting outcome of shock therapy and attempted systemic change – a return to traditional Muscovite games of neglasnost and of vicious infighting over seats close to the tsar, coupled with remuneration for “service” that takes place via a host of informal and clandestine channels. The Russian Federation will surely continue projecting an image of modernity and globalization, and foreign audiences will be playing along. It is all part of the game.

Perhaps Putin will step down, and perhaps he will not. What is important is that behind the façade Kremlin rules again will be those of old Russia rather than of modern Europe. Whatever happens in 2008 will surely not be the outcome of an open political contest, between contenders for the presidency that run on different platforms, with legally constrained campaign finance. If succession does take place, it will be sorely tempting for some to construe this as a sign of progress with democratic institution building, but deep down all will know that is it no more than a case of the tsar abdicating power in favor of one of his boyars.

This essentially Muscovite outcome of Russia’s attempted transition to democracy and market economy may well be supportive of high economic growth, based on proven methods of state controlled mobilization from above, and it does enjoy wide
popularity amongst Russians. If we think in terms of democracy and human rights, however, it certainly does not bode well for the future. Could it have panned out differently, with different advisors and a different policy from the West? Perhaps, and hopefully Yes, but that is a question that shall never receive a clear-cut answer.