Institutional Development: Interpreting the Russian Case

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Recommended Citation
http://scholarship.claremont.edu/cmc_theses/1549
Institutional Development: Interpreting the Russian Case

Submitted to
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And
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Senior Thesis
Spring 2017
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Abstract

A fundamental question to both historians and development economists is why countries today are able to reach and maintain such starkly different economic outcomes. Popular explanations include geographic and climatological features, short-term policy decisions, and economic institutions. This paper looks at the importance of violence and social pressure in the transformation and conservation of political and economic institutions in Russia. It finds that several major historical legacies including serfdom, Mongol dominance, Orthodoxy, and authoritarianism significantly influence both the past a present institutional setting. Furthermore, such legacies have proven to be major obstructions to the emergence of economic liberalism.
Acknowledgements

I want to thank Professor Cameron Shelton for first introducing me to this field of study during seminar, for his continued support and mentorship after the semester ended, and for the inspiration behind this topic. Your analysis and comments were indispensable to this project. I would also like to thank the German and Russian department for the amazing resources and opportunities they offer to students. I especially would like to thank Professor Larissa Rudova for her constant support over the past four years and during the writing process this semester. Your amazing joy in teaching and belief in your students has a huge impact on our lives. Finally, I would like to thank my family: My younger siblings Carsen, Nathan, and Elijah constantly inspire me to try a be good role model and I never would have made it to the position I am in now without the huge dedication of time my parents, Michael and Teresa, invested in me.
“Some of the major turning points in history are characterized by institutional innovations that cemented extractive institutions and increased the authority of one group to impose law and order and benefit from extraction.”

Daron Acemoglu and James Robinson, *Why Nations Fail*

“I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma; but perhaps there is a key. That key is Russian national interest.”

Winston Churchill, *BBC Broadcast*, October 1, 1939
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I. Introduction

For onlookers, much about Russia—its culture, its democracy, its actions—is incomprehensible from a Western-centric frame of reference. It is sometimes asserted that strong support of the Kremlin’s corrupt political and economic institutions surely must be manipulated, but the real facts are much more complex. Research in this field tends to fall into one of two broad groups: Russian specialists who start from an internal point and economists who examine cross-national data rather than individual countries. This split between two different centers of thought leaves gaps in our understanding of how and why economic development takes hold, never takes hold, or, as in the Russian instance, loses momentum along the way. In order to come to a comprehensive understanding that will not suddenly change with the next election, policy, or political contingency, we must understand the origins of development. This thesis identifies a mechanism through which social history and violence influence the broader institutional system centuries later. A key insight to institutional development is the importance of once-off critical events or “shocks,” which are independent of deeper, predictable factors. Economists rarely study such events because, by nature, they defy statistical and cross-national analysis. With its long history spanning influences from the Mongols to France, Russia is well-suited to such analysis. Thus, the overall goal of this project is to build a detailed, country-specific diagnosis of economic development using the fascinating trajectory of Russia as a case study.

There are several interrelated terms that are important to differentiate before proceeding. Economic outcome is the material well-being economists seek to maximize. Outcomes for a society are most often measured as growth domestic product per capita. They can also be thought of more generally as the results of a given social context, which is divided into political and economic institutions. While part of the same system, economic institutions are rules and
practices most important for economic activity: the tax system, rule of law, and property rights.

*Political institutions* deal more with systems of power (e.g. democracy and autocracy): who makes the rules, who enforces the rules, and the natural, i.e. agreed upon, succession of power in the absence of revolt. Section II discusses and defines institutions in full. *Development* refers to institutional development in the Western model of liberalism that pushes the future boundaries of a country’s economic potential. Development is a continuous long-run process, whereas technological “borrowing” by backward economies, otherwise known as convergence growth, is temporary with ceiling to growth capacity. Researchers have noted that central governments can achieve temporary levels of high economic growth in countries that have not industrialized (e.g. Soviet “New Economic Policy” in the mid-1920s and later on as well), but there will be no innovation as seen in open systems for closed systems once they exhaust convergence growth. For example, the industrial revolution, which was driven by communist policies in the Soviet Union, temporarily brought rapid growth (at enormous cost to human life it should be noted), but stagnated over time. Only liberalization, breaking of the chains of individual enterprise, has led to sustained growth (Fish 2005).

Development also intrinsically connects to real gains in democratic political systems. First, it becomes a natural part of market interaction. There is no greater, no more elemental political power than millions of individual decisions in a market guiding the direction of society day by day. Economic pluralism is democracy at its most fundamental level because it gives individuals power in daily interactions. Second, a basis of economic power (de factor power) is both an important prerequisite for political contestation and a safeguard for continuing power distribution. As French Philosopher Benjamin Constant (1819) wrote, “Commerce inspires in men a vivid love of individual independence.” Finally, it incentivizes democracy at the very
highest level. For, “The likelihood that a government will tolerate an opposition increases as the resources available to the government for suppression decline relative to the resources of an opposition” (Dahl 1971, p. 48). Hoffman (2015) in particular emphasizes this source under his argument that competition drove Europe to both development and eventually, democratized power.

This paper has two objectives: First, build a framework that explains general institutional transition, stagnation, or decay. Second, test that framework using Russia as a case study. Using this approach will not only provide a better understanding of development in Russia, but potentially offers lessons applicable to other countries as well. Section II sets the background by reviewing the arguments and support of three main camps claiming to explain economic outcomes: policy, geography and endowments, and institutions. Explanations based on policy and geography each have a major flaw. Thus, the conclusion of this review is that a combination of institutions directly and geography indirectly best explain economic outcomes and therefore is a fair starting point for analyzing transition. Drawing heavily on several seminal works in institutional theory, section III argues that institutional transition requires a conducive environment, which is defined as some diversity in economic power, plus a “shock.” Once-off critical events, or shocks, occur as violence (e.g. invasion and occupation) or as socially driven change (e.g. introduction of a new religion). As indicated above, transition is not always a positive development. It can result in decay or conservation of inferior institutions.

While any framework seeking a general picture of development is necessarily going to be complex, the framework created in this paper offers more application than stopping with the conclusion that rule of law and property rights are important. Development economists have often found that installing rule of law, property rights, and other market characteristics is
substantially more difficult in practice than predicted theoretically. Historical legacies unique to each country change the rules of the game and broad-stroke research often misses the potential effects of these unique legacies. Section IV places Russia’s institutions into our framework. While Russia has been and remains a powerful state in a number of measures and its GDP per capita is much higher than countries often targeted for development, it has also never fully liberalized—never fully transitioned to a modern “open access” society politically. Russia today fails basic tests of economic liberalization and democracy, and has for its entire history (Rosefielde 2005, p. 4). Rather, it has taken the form of a “sophisticated natural state” where elites use a number of levers to maintain their rent extraction. Russia has developed into a unique, second-best model that enables it to integrate select parts of capitalism while remaining its own animal. This model is built on a remarkable paradox between collectivized power distribution and an attachment to “rule by personality.”

If this is not the most efficient, best outcome in terms of development for Russia, why is it the case that it has dominated? Section V looks to the historical record and finds evidence for two phases in the story of Russian institutions. In the first phase, geographic circumstance plus shocks from Mongols invasion and Byzantine culture determined early institutional form. During this time, Russian institutions evolved in near isolation from the West. Once Russia did finally come into frequent contact with the West, it was often in a constant state of war with its Western neighbors and suffered from a series of major military setbacks from invasion to failed offensive campaigns. Even eventual victories often came at significant costs to human life and economic productivity. These real threats had tangible impacts for the trajectory of economic institutions, reinforcing the first phase system. They formed the basis for “imagined threats” and an anti-Western narrative. Elites use this as a weapon to maintain their control over institutions by
picturing development as a moral threat to Russian greatness and linking liberalization with the West. Radical change such as in 1917 and 1991 therefore did not result in transition to a new institutional system, but rather a new set of elite in the seat of power controlling extraction. Section VI summarizes and concludes with lessons learned on tangible institutional change and the factors blocking such change.
II. Literature Review

Many social scientists, and of course historians as well, agree that history matters. Divergence in thought is primarily along the exact channels of causality through which history affects economic results. Is it natural environment? Religion? Central bank policy? Researchers who attempt to identify these channels and answer the fundamental question of “why countries have attained substantially different relative economic outcomes,” can be separated into three camps: The first argues that a variety of geographical and endowment related factors have direct effects on economic outcome. The second camp focuses more on short-term policy decisions. A third theory increasing in traction recently is that some formulation of historical institutional structure best explains outcomes. Another angle of this theory, which this paper argues can be included as a subset, is that physical and human capital accumulation leads to growth. This section briefly summarizes prominent works in each, considers cross-country evidence, and some application to Russia. Russia’s location in a temperate climate as well as its recent experience with policy starting in 1991 suggest that policy and geography are poor explanations for economic results relative to other countries.

Geography and Endowments

Linking current economic activity to geography and the natural environment of different regions traces as far back as Montesquieu in *The Spirit of the Law* (1748): “Approach the south and you will think you are leaving morality itself, the passions become more vivacious and multiply crimes.” His diagnosis, while overly condescending, is not far from the conclusions of many modern endowments theory proponents. Economist and UN advisor Jeffrey Sachs (2003) is a vocal supporter of this camp, arguing that levels of per capita income and other economic growth measurements are strongly correlated with ecological or geographical variables such as
disease, crops, distance from coast, and—in line with Montesquieu—climate. A specific factor he emphasizes is malaria risk. Diamond (1997) in contrast does not focus on the tropics; instead, he suggests that germs and crops directly affected development in the long-run. Europeans had access to the most favorable distribution of domesticated animals as well as certain grains. Additionally, they developed resistance to certain diseases that would decimate other nations during Europe’s rise to power.

Gallup, Sachs, and Mellinger (1998) also find effects of location and climate on various indicators of economic development through channels of relative transport costs, disease burdens, and agricultural productivity. Haber (2012) takes a similar climatological approach to Sachs by looking at rainfall and its long-run effects; however, he looks at political institutions instead of economic indicators as a sign of development. The channel Haber identifies is that storable crops using rain-fed technologies in a decentralized production setting led to social settings conducive to growth. Haber’s argument is slightly different from Sachs or Diamond because economic outcomes are reliant on the politics of agriculture and rain rather than direct effects. He illustrates his point with a comparison of tropical “pineapple kingdoms” to the fractionalized nature of agriculture in Europe. In the tropics, many crops like pineapple tended to require larger economies of scale relative to crops in temperate regions. This in turn led to high incentives for more authoritarian control (Haber 2012, p. 28). A similar process occurred in arid climates due to centrally controlled irrigation from large water sources like rivers rather than relying on rainfall. Haber’s method is similar to an institutions-based approached because he identifies political factors as the direct cause. In other words, rain predicted economic outcomes through variance in early societal structures that are correlated with regional rain levels.
Hypothetically, if one were to set up those societal structures regardless of rain levels, a Haber-consistent prediction is that the economic outcome will be the same.

A troubling fact of the endowment theory is that many of these disadvantaged regions have the highest population growth rates. The hypothesis has no clear policy implication, but stands as fateful, self-fulfilling cycle: those countries unfortunate enough to be cursed with said factors have poor growth prospects regardless of policy. One of Sach’s actual suggestions is mass migration from these inferior locations. The problem is that history is full of exceptions to this ecological determinism: Singapore, Hong Kong, Barbados, Costa Rica, and more (Harrison 2000). Take Australia, which does not have the conducive agricultural climate many proponents of this view have in common, Acemoglu and Robinson in *Why Nations Fail* give us the incredible story of how a country without ideal natural factors was able to go from newly arrived convicts and other rejects to high economic development. Why? Institutions allowed human ingenuity to work, “convicts were allowed to become entrepreneurs and hire other convicts” (2012, p. 278). Property rights and rule of law predicted growth, not population or geographic characteristics. More broadly, Clark (2007) identifies a huge hole in the logic of endowments in the modern acceleration of the economic divide because if original geographic disadvantages predicted backwardness, as modern industrialization occurred, we would not expect this to accentuate geographical differences.

Perhaps the strongest conceptual argument against endowments theory that has also held true in regressions is what social scientists tend to call the “reversal of fortune.” A geographical perspective is committed to the fact that income differences are explained by natural factors and therefore remain stable over time, which is difficult to reconcile with history. The first example is Western Europe’s accession to world dominance. As recently as half a millennium ago, any
rational odds maker would not have picked Europe. Living standards, state power, and technological advancement were all much higher in China under the Ming Dynasty or the growing Ottoman Empire. Slightly earlier, and the Timurid Empire under the last great Eurasian conqueror Tamerlane dominated the Silk Road, which had for centuries been the center of wealth. European life was backward, underdeveloped, and brutal compared to civilization to the East. This changed rapidly starting in the late fifteenth century. By 1914, Europeans had conquered 84 percent of the globe and vastly distanced themselves in measures of economic development (Hoffman 2017). What happened? Originally wealthy countries adopted inferior institutions, which for one reason or another persisted and therefore blocked opportunities to industrialize and change. As a result, wealthier areas lost ground as the Western European countries exploited new technology and social organization.

A more controlled instance of reversal economists have modeled is among the countries Europe colonized after its own reversal of fortune (Acemoglu et al. 2002). The richest civilizations in 1500 at the time of colonization (Mughals, Aztecs, and Incas) effectively switched places with previously backward civilizations in North America, New Zealand, and Australia. Lastly, divergence regionally such as Northern Italy from Southern Italy or South Korea from North Korea is difficult to fit into an endowment theory. If starting factors directly and exclusively determine economic outcomes, the relative differences should be durable over time (unless of course there are omitted variables). In contrast, outcome reversal does align with an “institutional reversal.” At the very least, geographical advantages change based on factors like technology, which is what some theorist use as a revised version of endowment theory to explain the pivot from land-based advantages of the Silk Road to oceanic trade giving Europeans the upper hand (Gallup et al. 1998). While geography clearly is relevant somewhere in the story,
a now-weakened endowment theory approach that allows for changing effects over time also opens the door to arguments that endowments are not deterministic.

Russia in particular is a tough case for endowment theory proponents. The European areas of Russia occupy the same latitudes as highly prosperous and democratic northern Europe and Canada. It checks the most common boxes for development: disease environment, crop and livestock variability, and rainfall. Haber points to the divergence in economic outcomes of Central Asia from European parts of the Soviet Union following its collapse as support for his narrative based on rainfall, but he fails to address differences in outcome of Russia from the Baltic States or Russia from Western European states. Perhaps more plausible geographic variables to point to would be geopolitical vulnerability and the gigantic size of Russia. The difference in size between Russia and England could not be more noticeable, they are on two extremes as it were. Most likely due to the specificity and lack of comparable data on such factors, there has been little economic work on this explanation. Conceptually, however, some historians point to Russia’s geographical setting as an explanation of outcomes at least in part. Close to the steppe, the Ural and Caucasus Mountains both fail to provide a serious barrier to Eastern threats. Russia acts as a buffer between East and West. In such a harsh climatic and geographic milieu, novelty and experimentation could genuinely be hazardous, even disastrous (Hosking 2001). Russia also had to deal with much longer and particularly severe natural calamities, which led to an output-seed ration that did remain among the lowest in Europe for centuries (Kahan 1989).

An interesting subset of the endowments theory is the “resource curse” literature, which is especially relevant to Russia considering its huge share of the world’s oil, gas, and other mineral resources. Sachs and many others have argued in support of a negative relationship
between natural resource endowment and economic growth. Thus, the idea is also known as the “paradox of plenty” because an abundance of natural resource wealth, typically thought to be a major bounty, is actually said to have negative impacts on economic growth and democracy. Fish (2005) finds significant negative correlation between openness and raw material abundance, which he links to Russia’s endemic corruption. Compared to advanced technological production, services, or agriculture, natural resources are an easily controlled source power. More people can be excluded from economic institutions reliant on natural resources. There are also huge payoffs from this identifiable and easily controlled source of rent, which leads to increased likelihood of revolution. Yet, revolution in this instance has a different de facto power makeup than revolution wherein a more diverse set of actors (e.g. landed nonelite) are the source of discontent.

Recent empirical literature, however, points consistently to a “conditional resource curse” dependent on existing political structures. In other words, endowments act as a catalyst of increased momentum in whichever way the country was already in —be it good economic institutions or bad (van der Ploeg 2011; Wright and Czelusta 2004). For example, the U.S. used investments in specific knowledge of mineral, oil, and gas production in the early 1900s to help propel it to world leadership in productivity and manufacturing. In a country where strong institutions and diversified power are already present, interested parties will never allow rent-seeking elites to monopolize natural resources (i.e. Standard Oil breakup in the U.S.). Instead, the political institutions will ensure wide distribution of gains. Haber has an interesting take that confirms this conditionality, arguing that literature identifying a resource-curse has miss-specified the causal chain between authoritarianism and natural resource exports: unconstrained power leads to higher investment in natural resource production because it allows for more
control over economic power (Haber 2012). As we will see in the following section, this fits perfectly in a framework of economic institutional change that is driven by power relationships.

There is little doubt that geography and the natural environment play a role on economic history, and the responses laid out above do not reject its influence (Nunn 2009). Institutionalists just think there is more to the story, and that it is more helpful to understand that part of the story. “Clearly, democracy does not fall directly from the sky with a continual light drizzle. Something stands between the level of precipitation and the level of democracy” (Haber 2012, p. 14).

**Policy**

The second camp does not boast much generalist support and arguments are often for specific countries and written by specialists of those countries. This approach, as it sounds, focuses on the very short term horizon. For the most part, the policy approach overlooks history and argues that countries are not path dependent. In practice, it is a collection of many different approaches based on what side of the political spectrum the advocate falls into. The major argument it offers to the other two camps is that history does not play a large role and any weaknesses in economic development can be quickly reversed. Glaeser, La Porta, Silanes, and Shleifer (2004) argue that poor countries get out of poverty through good policies often under dictators, and subsequently improve their political institutions. An important component according to Glaeser et al. is that countries that emerge from poverty accumulate human and physical capital under dictatorships first. This can be true and at the same time not in conflict with an institutionalist perspective. In fact, such accumulation is key for de facto power (Acemoglu and Robinson 2006). Nonelites with more physical capital (land or resources) and
human capital (innovation or new organization strategies) will be in a better position to not only revolt, but also lock in their gains with political reform.

Case studies are especially popular for those in the policy camp. One such study contrasted Barbados and Jamaica, arguing that they shared similar institutions to start, yet income diverged over a period of several decades due to divergence in macroeconomic policy (Henry and Miller 2009). Another case compared Estonia to other, less successful former Soviet countries, pointing out that it used hardline policy to establish good economic outcomes (Abrams and Fish 2015). Their conclusion is that “Institutions are more likely to be the effects of good policies than the cause of them” (p. 508). Even when the reverse is true (policies fail to spur development), adherents to this camp simply shift ground by arguing that a different set of policies would have done the trick. Take Russia following the collapse of the Soviet Union in 1991 as an example. It is now popular to criticize “shock therapy” and the “Washington Consensus” as doomed to failure. Some say that reform did not happen fast enough and that more was needed (Fish and Choudhry 2007, p. 277), while others take the complete opposite position that a more gradual approach was needed (Goldman 1994). In practice therefore, the policy approach is actually more fluid and ill-defined than the institutional approach it critiques on the same basis.

In effect, policy advocates are attempting to create institutional change without understanding history. Policymakers and international organization hope for a one size fits all policy to diagnose economic underdevelopment around the world. Unfortunately, it is not that easy. What might be working for development in Estonia and Barbados may not be the same thing that works in Sierra Leo. After the collapse of communism, Alan Greenspan was confident that establishing a prosperous free-market system in Russia would happen almost automatically
as they were incorporated into the international system. Years later after failure to fully transition, he concluded somberly that he had missed the question of culture (Harrison 2000).

Growth is also not only a national question. Anzoategui, Easterly, and Pennings (2016) find that as little as one-half of growth is determined at the national level with the rest split both supra-nationally and regionally: “Consistent with a growing literature, our results suggest that many of the deep determinants of growth (for example institutions, geography or culture) may vary at sub-national or supra-national levels.” Supra-nationally, policies can vary widely with some similar results because neighboring countries share deeper institutions while sub-nationally the same is true when regions develop differently despite the same policy atmosphere. The former Soviet Union is a fascinating example of these dual effects. From 1917-1991, different regions developed with varying results under similar policies because of cultural difference. Post-collapse, despite different policies, every republic faces some of the same institutional legacies.

Researchers for the most part point to a clear set of reliably important institutions for development (rule of law, property rights, trust, etc.), but setup and enforcement of such institutions is heavily context dependent. What proponents really seek is a way to transform institutions. Rather than pretending they do not matter or are not enduring, perhaps it would be helpful to seek understanding of their historical role before attempting any influential policy. This point is what drove the establishment of the “new institutionalist school.” Acemoglu and Robinson came up with the idea for their now famous book Why Nations Fail in 1997 while at an economic conference. One presenter apparently used historical data from the previous two decades to explain underdevelopment in Haiti, which prompted incredulity on their part because it ignored any deep-seated process related to development. “You need to go back two hundred years, not twenty” (Morrell 2012). Solution lies in fundamental changes: integration into the
Returning to Estonia, in the first place the country did have a more liberal set of institutions prior to communism and even during communism compared to other republics. Second, perhaps there was institutional reform political actors quickly created new rules and norms, judges and civil servants took pride in their incorruptibility, and a new set of capitalist, non-rent-seeking entrepreneurs were established. This political reform helped establish new institutions in the long term such that if the elites temporarily gained back power, they would not be able to merely roll back policy.

**Institutions Matter**

The final camp sometimes referred to as “new institutionalism,” rests its case on the economic institutions that shape incentives economic actors face. While individual studies often identify certain time-periods or constraints to guide measurement of causal impacts, the overall conceptual framework of institutionalists spans across politics, culture, and organizations. It is therefore critical to comprehensively outline what we mean by institutions before examining the evidence.

What are institutions? Many new institutionalists begin with Douglass North’s definition: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction” (1990, p. 3). They have a quality of durability while at the same time occur at an interaction level more complex than that of our most fundamental social interactions, which are personal and often based on kinship. Durability distinguishes institutions from *policy*, which is action or inaction by the state with a specific objective in mind. Policies are much easier to pass, reverse, or even simply ignore whereas institutions have a
longer impact on the future by changing the power structure. The Magna Charta or the Glorious Revolution were both institutional changes because they substantively changed political power and could not be simply reversed the next day, thereby setting the stage for substantial economic change (Acemoglu and Robinson 2006). Not only are institutions durable, but there tends to be an effort to conserve them. Thus, even when the original context in which they arose fades, institutions will continue to have a lasting impact—often in efforts to thwart new interests and competition. This mirrors exactly the aforementioned great reversal when Europe overtook China and the Middle East.

While we tend to think of institutions as something formal like a constitution or presidential structure, institutions can span a wide set of formal rules, written laws, formal social conventions, informal norms of behavior, shared beliefs about the world, and acceptable means of enforcement. Institutions say something about how the world operates in practice, not just in theory. North, Wallis, and Weingast explain,

The most common way of thinking about institutions is that they are constraints on the behavior of individuals as individuals; for example, if the speed limit is sixty miles per hour, how fast should I drive? However, institutions also structure the way individuals form beliefs and opinions about how other people will behave: for example, if the speed limit is sixty miles per hour, how fast will other drivers drive? Framed in this way, we ask what types of institutions can survive given the interaction of the institutional constraints, people’s beliefs, and their behavior (2009, p. 15).

In a given society, different components adapt to each other forming an overall institutional system. This is why a country like our case study might have a constitution that looks very similar, even stronger to that of the U.S.’s, yet have a radically different overall institutional system. While a necessary and prominent component of institutions is formal, the mechanisms of checks and balances created in developed democracies, no set of formal rules can ensure full compliance. Reliance has to be placed on habitual compliance with the law,
honesty, and trust. Economists sometimes think of these informal institutional factors as non-exhaustible inputs into economic transactions (Granville and Oppenheimer 2001).

This buy in by social actors is essential in forming the consensus that dictates how institutions actually work. Ideally, buy in is supportive of good formal institutions and helps police the rules informally by withdrawing support from violators (North et al. 2009). In a counterintuitive way, modern liberal capitalism is not just about the written rules. Take Warren Buffet, perhaps the most eminent and successful capitalist in history. When asked what he looks for in companies and leadership one of the first answers he gives is integrity. Why does that matter? Because informal norms and beliefs are an important part of the overall institutional system. Buffet understands that he cannot rely on coercive enforcement at every turn, so he only will deal with businesses that follow the institutions even when deviation could offer short-term gain with little risk for punishment. At the fundamental level, what we are identifying is trust, which has been related to a number of societal phenomena such as democracy, civil society, and economic performance (Stickley et al. 2009). Institutions both structure trust in a productive manner and allow it to grow. Compare an impersonal, market interaction to a similar personal or kinship interaction. In the former, the idea is not that you can trust the other person to have an interest in you; rather, you both place trust in the institution thereby conferring benefit horizontally if the trust is mutual. A kinship based interaction in contrast is based on a direct relationship of trust —perhaps sometimes more assured, but also extremely limiting in scale of potential actors.

Institutions are how we escape a brutal, Hobbesian "solitary, poor, nasty, brutish, and short" state of nature. What we have begun to describe is the more exhaustive game theoretic explanation for the existence of institutions. Institutions are an extension of humanity’s social
nature: the need for collective action and our ability to act in organization. They are how human behavior evolves alongside and in connection with our nature. According to Fukuyama (2011), a set of biological preconditions form “an innate propensity for creating and following” norms or rules over a long-run game, these include: an innate sociability originally built around kin selection and reciprocal altruism, a propensity for violence, and a desire for material gains as well as social recognition (p. 439). While these biological characteristics ensure that societies will have some level of institutionalization even if it is driven by the most baseline familial relationships, there is no determined state of such political order. The above tendencies accumulate over time to form into unique, durable manifestations:

An institution is composed of common knowledge regarding salient features of equilibrium plays of the game out of the many possible . . . In everyday language, an institution is salient, self-sustaining features of social interactions, held as the common knowledge of all the agents about ways in which they are to act/not act (contingent on the evolving state). It can be regarded as rules of the game endogenously constructed and self-sustaining (Aoki 2006, p. 7).

In essence, institutions are ways we have codified solutions to the collective action problem so as not to reinvent the wheel with each generation, they are not set in stone, but are generally endogenously determined without intervention upsetting the cycle. Societies create “mental models” of reality critical for facilitating large scale collective action (Fukuyama 2011, p. 442).

Figure 1 illustrates Aoki’s explanation of institutions in the described endogenous form.
Accumulation of such knowledge over time into shared institutions frees actors from relying on personal relationships or equivalent basic social norms. Instead, actors rely on a type of idiosyncratic “knowledge of particular time and space” created by the institutions themselves as Hayek (1945) identifies in the example of capitalist institutions. The equilibrium also consists of general shared knowledge and behavioral belief discussed earlier under trust (two actors in an impersonalized interaction may not trust their best interest to each other, but they both place trust in the system). Institutionalizing is an endogenously reinforcing, dynamic process. One of the most powerful forces it unleashes is collective action in the form of organizations at a scale that was previously impossible. Organizations are defined as “specific groups of individuals pursuing a mix of common and individual goals through partially coordinated behavior” (North et al. 2009). This common action can be either self-enforced based on incentive-compatible goals, or it can also take the form of a contract with third-party enforcement. Organizations played critical roles in private or quasi-private commerce through corporations and early trade contracts as European mercantilism grew. Kuran (2008) traces how historical Islamic law discouraged large-
scaled contracts (and by extension scaled organization) in the Middle East, which turned out to be a key factor in the great reversal. Organizations are important in the public and political sphere, making up what is often termed civil society: political parties, interest associations, labor unions, and social movements.

*Figure 2* illustrates our understanding of the institutional cycle up to this point:

Geography does not affect economic outcomes directly (1), but does influence the early forms of agriculture and social beliefs (2). Very early forms of a political institutions share a starting point based on human nature (personal and kinship based), but the early results of (2) will affect the power dynamic in (3) and resulting political system that emerges in (4). Depending on their level of control, elites in the political system will fashion economic institutions to their advantage in (5), which in turn determines economic outcomes (6). Finally, economic development is self-enforcing (7), which means that once a given system achieves equilibrium, there is no expected change in the absence of exogenous change.
One may have noticed that the term “culture” is largely absent or used as a substitute for institution, but this is not completely accurate. The question of culture is a difficult one. “In any given society, all the institutions present in that society are adapted to each other; they all function together as components of an overall institutional system, and it is only by a kind of provisional abstraction that we can talk about any one of them in isolation from the whole system of which it is a part” (Dennison 2014, p. 251). Culture is contained in informal institutions (returning to the discussion of Buffet, company culture is now frequently the focus of productivity research), but also can be thought of independently.

It is not without use, however, to build some degree of separation between culture and institutions prior to incorporating them into the broad institutional system. Culture is one of the few channels through which potential change to a set of institutions can take hold. It is more difficult to monitor and control from the center and thus sometimes confounds feedback of political and economic institutions (refer to arrow 7 in Figure 2). Whereas endowment theorist have a persuasive case that initial environmental aspects dictate what the first power distribution and therefore political system will look like, they have a harder time explaining pivots a country makes after adopting a new religion or set of values. Therefore, I define culture as the set of values people (usually a distinct group such as religion or nationality) have of how the world ought to work, as well as how the world in reality works. Culture in turn dictates norms of behavior that go into institutions as illustrated in the earlier smuggling example. Russian sociologists Lotman and Andrevitch offer a more exhaustive definition:

Culture can be understood as non-hereditary memory of a group, expressed in a certain system of prohibitions and commandments. Does not preclude an axiological approach and it is true for the group itself, culture always appears as a set system of values. The outside observer from an external perspective can understand both the value system itself and the internal point of view process for that group. In other words, it is “the dynamics
of a culture’s self-consciousness” which can help explain changes in normative positions (Lotman and Andrevitch 1985, p. 30).

What Lotman and Andrevitch are saying here in terms of adopting an external perspective is extremely useful for the objective of this paper. Usually, observers stop at explaining actions by a value system (i.e. religious extremism and terrorism). The next step of analysis, however, involves understanding the process that developed that time-specific outcome. Sections IV and V focus on this step by analyzing the historical record of Russia and the Russian people.

Culture itself as a theory for development has a rich history first popularized by Max Weber (1930) in the Protestant Ethic and the Spirit of Capitalism. Weber argued that specifically Calvinist Protestantism ignited the rise of modern capitalism by rejecting parts of Roman faith that had spurned material gain and sanctioning an ethic of everyday thrift to replace it. Current research also finds substantial differences in savings rates by religion as well as higher innovation and economic growth in cultures that score strong on individualism (Guiso et al. 2006; Gorodnichenko and Roland 2016). So why include culture under institutions instead of separately? Because turning to culture alone is circular. It may be helpful for comparisons of current position, but culture alone fails to explain transition. As Barrington Moore (1996) wrote, “to explain behavior in terms of cultural values is to engage in circular reasoning.” Culture feeds into institutions and therefore economic outcomes and behavior, but it does not fully explain it. Explaining current Russian development as a result of behavior and behavior as a result of cultural values does not get us anywhere useful. Additionally, formal institutions, informal institutions, and culture all are similar in our game theoretic formation of institutions (Figure 1).

Weber is also somewhat misinterpreted. Lost is the fact that Weber also points to rational bookkeeping and capitalistic organization of labor —entities that look suspiciously like new formal institutions. Similar to endowments, culture influences economic outcomes through the
types of institutions it sets up. It is not necessarily rainfall or Protestantism per-say that resulted in economic growth; rather, it is the institutions these factors happened to result in. Protestantism does not have a monopoly over a certain work ethic just as agriculture is no longer the defining factor of economic might. For example, under the Meji Restoration Japan adopted Western institutions resulting in stable and long term economic growth without adopting the same Protestant ethic. Similarly, that same thrift study also identified Buddhists as currently having higher thrift rates than Christians (Guiso et al. 2006). The relationship between individualism and innovation or economic growth remains strong even after controlling for institutions and other potentially confounding factors (Gorodnichenko and Roland 2016). In other words, a Japanese Weber could have made the same argument following the Meji Restoration. Acemoglu and Robinson (2006), although they do not consider culture in-depth, argue that “as long as one accepts the premise that the interests of individuals are partly about economic outcomes, our basic analysis remains unaltered” even if ideas about politics matter (p. 42).

Empirical evidence for the importance of institutions in economic development is both strong and abundant. Easterly and Levine (2003) test the endowment, institution, and policy theories against each other and find evidence that endowments affect development through institutions as this paper has argued conceptually. “In sum, the results . . . provide strong support for the institutions hypothesis but no evidence for the geography hypothesis. Endowments explain institutions, which in turn explain economic development.” A result confirmed in tests by additional researchers (Rodrik et al. 2004). Other studies have also found a strong relationship between more democratic distributions of power and rule of law, control of corruption, and income (Giuliano and Nunn 2013).
Well-published members of the institutionalist camp Daron Acemoglu, Simon Johnson, and James Robinson (2001) gained notoriety for their innovative article "The Colonial Origins of Comparative Development: An Empirical Investigation" in which they used settler mortality rates in the New World as an instrumental variable to examine whether or not extractive institutions were established and what the effects of established institutions. In a wide range of tests controlling for geographical and endowment related factors, they found persistent and significant effects explained by institutions. Differences in common formal and informal commercial practices determined the reversal of fortune in colonized areas. Similarly, Acemoglu and Robinson make the case for inclusive institutions and pluralism in their book Why Nations Fail. They use examples ranging from the macro level over long periods of time like Great Britain and China, to a more regional level such as North and South Korea or even the split in development from North to South in the U.S. leading up to the Civil War. Their conclusion is that all countries who have succeed share several commonalities: elite lost control over the state, government became accountable and responsive, and incentives allowed people to maximize economic opportunity.

The institutionalist camp fits well with the current picture of politics, development, and culture in Russia. In terms of formal institutions, Russia suffers from an overpowered presidency that is currently working to undermine democracy. Some have warned of the dangers of a presidential system directly (Linz 1990; Mainwaring 1993). Another take is that what matters for democracy is not whether the constitutional system is formally presidential, semi-presidential, or parliamentary, but rather how strong the legislature truly is (Fish 2005). Either way, Putin has clearly been able to reconsolidate rent-seeking power in his office (e.g. effectively renationalizing large energy companies). One of the most important institutional components
where Russia struggles is in rule of law. La Porta et al. (1999) find a link between per capita incomes and “government performance” in what is good for economic performance, in which they list security of property rights, lack of intervention, benign regulation, and low taxation. Their research also identifies political history as determining most clearly which governments perform better (p. 266).

Although Russia formally adopted many institutions and policies similar to the West, it never developed the full extent of check and balances or a culture of horizontal relations important to the success of such policies. Especially on the informal side, the prevailing culture for centuries has been of hierarchy and consolidated power, which predicts the Kremlin’s rise (Migranyan 2015). One account cites a businessman who lamented, “Above all, it is the lack of common honesty in Russia, in its narrowest and most ordinary fatal flaw in character deprives the government of the able executive power, by robbing it of a necessary number of honest, faithful lower-ranking officials” (Rosefielde spring 2005). Surveys in Russia find low levels of institutional trust with “deep historical roots” (Stickley et al. 2009). The culture does matter because, just as people are likely to obey the rules if they believe that other people will also obey the rules, they are also likely to ignore the rules if they believe others do ignore them as well. For example, I once spent a period living in a former Soviet Republic. What struck me most in a conversation with one native Russian while there was not the levels of corruption she faced, but her acceptance that “this was the way things worked,” the way society operated. Soviet “blat,” which roughly translates to a culture of favors, is endemic to the overall Russian institutional system (see Ledeneva 1998).

This section has sought to outline the basic frameworks of common explanations to the divergence question along with some support for institutionalism as the best explanation. Unlike
other topics, understanding economic development is more about ordering and conceptualizing various factors than identifying one exclusive causal explanation. Sachs, who ironically is one of the more blunt critics of camps he disagrees with, concluded that: “There is good theoretical and empirical reason to believe that the development process reflects a complex interaction of institutions, policies, and geography” (2003, p. 9).
III. A Framework of Institutional Transition

“If you’re going to set up a society on a new planet, you don’t want to have the government running itself off the labor of robots or mining rents. You have to set up an economy where everybody is needed, everybody is valued. That is a big lesson from these successful experiences.”

Robinson, in an interview on *Freakonomics Radio*, 2017

The field of comparative and historical economic development is typically descriptive because empirical work focuses on what matters and why, while placing less emphasis on how development forms over time. For pure endowment theory proponents, the answer is straightforward: history begins and ends with location. For institutionalists, transitions are complicated. It is much easier to analyze the effects of particular aspects (individualism, property rights, extractive institutions, etc.) on income than to explain why some countries embraced those aspects in the first place or insist on rejecting them now despite the overwhelming evidence that markets and capitalism provide better outcomes. And while certain institutions will have nearly identical economic consequences if they are indeed the same, rarely do two countries take the same path to those institutions. This section builds a concept of transition based on synthesis of three primary texts: North, Wallis, and Weingast’s *Violence and Social Order* (2009), Fukuyama’s *The Origins of Political Order* (2011), and Acemoglu and Robinson’s *Economic Origins of Dictatorship and Democracy* (2006).

Fukuyama focuses on political evolution, comparing it to biological evolution (see section II) with two key differences: rules take the place of genes and their evolution can occur deliberately instead of in an unplanned manner (p. 446). He postulates that political systems vary widely with the stronger tending to supplant the weaker through either conversation or conquest. Since culture transmits formal political institutions, so change can occur both faster and slower than biological evolution. Acemoglu and Robinson believe that time and power distributions are
key in understanding transition. They split power into *de jure* and *de facto* power; where a system allocates *de jure* power and *de facto* is Hobbesian brute force. In all early political orders, elites monopolize *de jure* power, but have varying levels of control over *de facto* power.

Transition happens when non-elites have a sufficient stock of *de facto* power to challenge elites *and* solve their collective action problem. These historical instances are temporary, “Collective action is intrinsically transitory” so non-elites institutionalize their temporary advantage in relative power by changing political institutions as in the Magna Carta (Acemoglu and Robinson 2006, p. 128). In other words, during successful transition reformers subconsciously grasp that their current political power to affect change is fleeting and therefore seek to entrench that power over the long-term in institutions. If they are unable to do so, elites will inevitably regain power and the cycle will revert to its previous equilibrium rather than achieving a new equilibrium.

Powerful English Barons are probably not who initially come to mind as an example of “non-elites,” but the relevant point is that there is a *durable shift in the political order* even if it only goes to a select few. England did not liberalize in one fell swoop. North, Wallis, and Weingast (2009) also consider there to be two different types of shifts. The first type takes place within the natural state of society and serves to expand the elite (e.g. Magna Carta). The natural state is based on the basic conditions of human nature that Fukuyama identified. In other words, it is a state dominated by personal power hierarchies driven by kinship and friendship. Within a natural state, society can move from a “fragile state” with a small circle of ruling elite always seemingly on the edge of conflict to a “mature state.” A mature state has begun to develop initial civic and commercial organizations and an increasingly complex power balance undergirds elite consensus. The second shift is to an open-access system, where control is in the hands of citizens
and has become mostly impersonalized. In this system, impersonal rule of law and organizations balance power rather than personal ruling elite or elite coalitions.

**Violence and Social Turnover**

Transition has two components (see Figure 3) that will together determine the outcome of transitionary period. The first, which NWW place more emphasis on, is the environment. The environment is the characteristics of actors involved in the transition. In transitions, what the previous economic institutions and cultural norms support will affect the effectiveness of change. The second component is a shock—some spark that upsets equilibrium. A one-off event of this nature can be either endogenous or exogenous. Internally, a previously unorganized or out of power group to solve the collective action problem in reaction to perceived injustice while externally, a new group appearing on the international stage could upset stability.

Different combinations and strengths of shocks and environment, whether they work in harmony or opposition, will determine the outcome. For example, a Mongol horde crushing and occupying a state is likely to result in transition whether or not the environment is fully conducive to that specific change. In contrast, a fleeting peasant-driven revolution is only likely to result in long-term change if the environment is also conducive to new institutions. Some literature has noted how different subcomponents of institutions (formal, informal, cultural) tend to occur or change at different rates. Cultures usually change slowly and continually, or rapidly and irregularly while political institutions tend to change rapidly and temporarily (Roland 2008). Because of

Figure 3: “Transition requirements”
differences in the manner in which power is deployed some societies collapse in response to shocks whereas others prove adaptive (North et al. 2009).

*Figure 4* highlights how these two shocks usually fit into our earlier model. Social change, such as widespread conversion to Islam in the Middle East and parts of Asia, changes the overall institutional system at the first level, similar to what analysis of geography. Significant changes in beliefs and social norms then will ripple through the system. Violence, whether it originates internally or externally, initially bypasses social order and changes the power dynamic directly.

*Figure 4: "Exogenous change introduced"*

What about policy impacts? Aoki (2006) has a very insightful discussion surrounding policy:

Certainly, there are many instances in which policy and legislative actions (as consequences) in the political exchange domain appear to trigger institutional changes in other domains. But even in this case, the process can be characterized as an instance of dynamic institutional complementarities in which policy change (a consequence of the play of the game in the polity domain) is initiated in response to the emergence of
concomitant endogenous changes in other domains, while policies reinforce complementary interactions across those domains. As a consequence, it is not rare for policies to ultimately yield unintended institutional outcomes in the end (p. 32).

Economic institutions are determined often through policy of the political institutions, but it is hard to point to the political institutions as originating in policy. The point Aoki is makes is that policy can be explained endogenously as different parts of the cycle balance and respond to each other at equilibrium.

One of the important questions Acemoglu and Robinson (2006) address is why elites in some countries would give concessions and start down the path to democracy while others refuse. One reason is that repression is costly, especially in more urbanized locations (a big difference for Russia). Elites generally do not want to kill or throw in prison peasants they could otherwise tax or use in wars against other countries. Second, the top elite (e.g. king or tsar) needs an organized circle of support in order to take power, run the country, and fight wars. While terror strategies and repression is one way to maintain support, co-optation can often be better or easier. Thus, small concessions that can have lasting institutional impact are made in return for support. Third, to resort to repression without losing support, the target group must be sufficiently demonized such that the rest of the support base is willing to go along (e.g. historical demonization of Jews). Whether the maneuvering is between the top power and elite circle (e.g. Tsar and boyars) or the broader elites with the nonelites (e.g. American revolution), a similar game takes place. In other words, repression requires gaming that fits under the old adage “divide and conquer.” One holdup for elites, however, is that division is not always straightforward. Existence of a middle class makes repression more costly by virtue of its education, economic and social status (Acemoglu and Robinson 2006). Section V expands further on this holdup by comparing serfdom practices in Russia to those in England to find that
because there was weaker customary law, repression was much easier and longer lasting in Russia.

Social shocks to the system are much more challenging to encapsulate than violence. Part of this is because change often occurs at a slower pace than violence and because a distinction between internal and external social shocks is not immediately apparent. Nevertheless, social upheaval is an important component for predicting institutional formation. Different widespread social beliefs naturally affect how political institutions will react along that specific issue. “What people believe about what it takes to be prosperous has much to do with how they behave” (Porter 2000, p. 23). This is especially true for economic institutions. For example, Di Tella and MacCulloch (2006) find evidence that Americans are more likely to attribute success to hard work than are Europeans and that “these differences in background beliefs imply different public reactions to economic circumstances.” Conceptually, if something were to shift these background beliefs, our argument is that institutions would likely adjust to reflect this change.

What are some ways that social change can spark institutional transition? One of the more common is through religion as Fukuyama argues. A second and more complex channel is related to leaders. The Great Man Theory explains history through highly influential leaders and there is reason to believe that such leaders could be a result of their institutional system, the cause of it, or a combination of the two depending on the circumstance. Russia, from its early Tsarist years up through today, has been connected with hugely powerful and personal leaders (Ivan IV, Peter I, Catherine II, Stalin, Putin, etc.), yet none have fundamentally broken with the underlying extractive institutional system. Thus, this fits into the first category, leaders as a result of the institutional context. A working paper by Lowes et al. (2017) that finds evidence of formal institutions under the former Kuba Kingdom influencing culture to this day, but there is a notable
secondary implication the authors do not focus on. The kingdom arose due to an institutional innovator named Shyaam who did not fit the mold of leaders at the time. Likewise, Genghis Khan was an institutionally innovative leader who had a significant effect on Mongol institutions. He adjusted and combined previous institutions with lasting impact on the system equilibrium. Lastly, Napoleon combines the two. While some of his nationalist tendencies and popularity cannot be separated from the institutions that preceded him, the Napoleonic Code had lasting institutional effects.

**Capital Accumulation and Competition**

Turning to the context of institutional change, many researchers have emphasized the importance of human and physical capital accumulation. In our framework, these factors are the soil or fuel for institutional transition. A few modern proponents treat it as a critique of institutions. They argue that accumulation is directly linked to growth. For example, Clark (2007) argues that important economic institutions like those in England prior to the industrial revolution existed elsewhere without the same results. He focuses on an interpretation of human capital accumulation, “downward mobility,” that occurred in England over a long period time. The rich and successful had more children than poorer classes, thereby passing down attributes that would later ensure economic dynamism (work ethic, innovativeness, education, etc.). Clark then argues that this process happened faster than in China, Japan, or other European countries.

Undoubtedly, the process Clark and others identified is important for transition, but as an explanation in itself, it is problematic. First, variance in birthrates and the structure of inheritance is lacking as a starting point. What determines birthrates and inheritance rules other than the overall institutional system? Second, transition required multiple instances of political uprising and reform. Economic growth and the emergence of a middle class, regardless if it was due to
downward or upward mobility happened because new middle class occupations existed — take away the political framework and the outcome could look very different.

That is not to claim that accumulation is not critical process. It is essential, fully unleashing the power of open access. However, alone it does not instigate open access. In other words, accumulation theories are a catalyst that ignited the kind of exponential growth seen during the industrial revolution. Nevertheless they are not a good explanation as to why some countries were already on that path while others to this day struggle to reach advanced growth (e.g. Russia) or even the most basic level of modernization (countries still hovering near subsistence levels). Put into NW terms, accumulation exhibits the full power of political pluralism, efficient institutions, and impersonal organizations. “Organizations are the lifeblood of both political and economic competition. They are the vehicles through which economic and political entrepreneurs implement their ideas and affect the dynamics of the economy and the polity” (NWW 2009).

This distinction noted, ground must now be given back to accumulation theorists because it is important to note here that it is not a one-step process. Reaching the benefits of open-access institutions is akin to a set of stairs leading to the party of one’s dreams. Each step involves building momentum by moving horizontally closer to the next jump (some accumulation of capital) as well as a sudden vertical break to reach a new level of institutionalization. At the very early stages, “vertical jumps” occur when the ruler slightly expands the circle of supporting elite as well as their rights while the final stage will involve society as a whole demanding continuing political power through representative government. Many writers have argued that the formation of a large class of small property holders — that is, a middle class— facilitates democratization and further economic development (Moore 1966; Fish and Choudhry 2007). This is by no means
an inevitable process, elite intervention can happen along the way. Just as human nature allows for progressive evolution to more advanced institutions, stagnation can occur as a natural result of our desire to conserve institutions. The relationship of accumulation to the type of shock is relevant for understanding transition. Cultural factors are often the counterproductive force behind conservation or current, inefficient institutions because, at least in the long run, violence tends to run out of power or run into greater de facto power. So while violence undoubtedly plays a role in continued backwardness of underdeveloped countries today, a period of cultural change is also needed for the introduction of Western institutions to be successful.

Perhaps the most powerful catalyst, competition, is present both domestically and internationally. Similar to accumulation, it cannot by itself explain transition, but it is a powerful force. We already examined how domestic competition in an open-access society between impersonal organizations rapidly drives up economic outcomes. Another fascinating role of competition is through external violence. Hoffman’s thesis in Why Did Europe Conquered the World? (2015) is that Europe did so through a tournament of war with outsize expenditures on military technology eventually transforming into major development advantages. He points out that geographic factors alone cannot explain history nor industrialization because Europe had already conquered 35% of the globe before it began to industrialize. The argument he makes is for fragmentation, but he does not explain why this occurred. Therefore, his ultimate cause of political history is consistent with our framework. As Hoffman notes, “Britain’s economic victory was similar to its military victory, produced by political history” (p. 213).

The centuries-long tournament European powers engaged forced rulers to dedicate enormous resources towards winning some prize (whether it be for financial gain, territorial expansion, faith, or glory). For example, well over 80% of the annual budgets of England and
Prussia between 1688 and 1790 were spent on waging war. What is especially fascinating about this fact is that exerting tremendous military effort led to Europe’s development rather than exhaustion and damaging conflict. Why did Europe suddenly explode in development rather than falling further behind China and the Middle East? Institutional history explains this reversal by the constant pressure of external war leaving little room for repression, inefficient states, or backward economic practices at home. To remain competitive in the tournament, European leaders were forced to give more concessions domestically or risk weakening their overall position.

Thus, effects from the tournament trickled down to domestic political and economic institutions and resulted unexpectedly in momentum for transition to an open-access society. “Moving to an advanced economy requires that vigorous local rivalry develop and shift in character from minimizing costs and imitation to process efficiency and, ultimately, to innovation and differentiation” (Porter 2000, p. 19). Rulers needed to allow freedoms to unleash economic dynamism and reach the levels of economic production necessary to compete externally. This was not necessarily done consciously, but if rulers tried to have it both ways (more domestic resources and absolute power) they would either fail to extract sufficient resources to avoid losing the tournament, or they would face revolt from those groups.

In comparison to the rest of human history, momentum for development built incredibly fast. All this investment in war drove gains in productivity, technology, and a wide-range of social innovations. Countries would copy the discoveries of opponents, thereby spreading development. For example, England and Prussia were quick to adopt aspects of organizational innovations that proved so effective for Spanish “Tercio” infantry units (Hoffman 2015, p. 40). Even healthcare advances were made. Not out of moral considerations, but because it was far cheaper to cure a
wounded veteran than to find, train, and integrate a replacement (p. 37). Military service also
allowed deserving individuals in terms of fighting, leadership, or innovation to aspire to noble
status (p. 25). At first much investment gains were made in “learning by doing.” Then research
and science took off around 1800.

When relative peace and growing urbanization came to Europe in the nineteenth century,
the tournament focus turned to empire building, which quickly resulted in major transportation
innovations. Europe is not unique, however, in facing violent conflict for long periods of its
history. If Russia and many other countries also engaged in nearly constant conflict, how is it
that they did not reach the same results? The incentives leaders faced were different. In most
areas, war was an all or nothing game. If you were a ruler and lost, your country would be
occupied and you were deposed and probably killed. Alternatively, in areas with one unified and
overwhelming power (e.g. Russia across much of Central Asia after 1600), the powerful ruler
could allocate less effort to fighting external wars than maintaining absolute control domestically
and still be successful. The incentives European leaders faced bridged these two extremes. They
exerted tremendous effort to winning, but at the same time it was not an all or nothing game.
Other than civil wars, defeat almost never ended in toppling the losing monarch. Hoffman
provides very interesting data along this point (p. 27). Ruler turnover after losing a war was, at
its highest, 50% in Netherlands and Sweden. Every other European country was at or below 25%
and for long periods no ruler was deposed in Great Britain except in civil war.

Europe dealt with just enough pressure from the violence channel to change elites’
economic calculus. In contrast, early Russia had little chance at defense against the great Mongol
horde. Then for two centuries, it fell under the broad Mongol security blanket before switching
places in a relatively short period to become the Eurasian hegemon. Russia did engage in the
European tournament, but in a more sporadic fashion with widely varying effect. Gradual, continuous change was never a characteristic of Russian participation in the tournament. Domestic unrest as well took more extreme form. For example, the Bolsheviks were greatly empowered by Russia’s involvement in World War I.

**Institutional Decay and Entrenchment**

Institutional transition is often described in a progressive manner, but not all transition is forward moving. The durability characteristic described earlier can serve to conserve inefficient and even extractive institutions in several complimentary ways. First, inefficient institutions can survive for a long time because groups with a stake in institutional change fail to get organized and solve their collective action problem (Roland 2008). Another reason AJR (2005) term the commitment problem is that political reforms will not be enforced once the transient political power of an organized group dissipates. Finally, there is potential for “cognitive dissonance” Fukuyama attributes to cultural factors. In this case society’s very ability to perceive failure is clouded. Throughout history, backwards societies or losers in conflict often blame “inadequate observance of religious obligations” as the reason for defeat rather than some other structural deficiency. In extreme cases, it could be some of those very obligation that resulted in failure.

A millennium ago, the Middle East was second only to China in terms of economic development. It was definitely more developed than Europe. Kuran (2008) argues that certain legal practices common in the Middle East contributed to the regions subsequent backwardness after the great reversal. For example, the *waqf*, which funded public goods and buildings for the community, was very inflexible and difficult to coordinate at a larger economic scale.

Inheritance was also distributed among all relatives rather than the oldest heir (similar to custom in Rus’ before Muscovy broke with this tradition). This created a system where it was difficult to
accumulate capital and successful businesses tended to fragment after death because of the power struggle among relatives. Lastly, certain elements of contract law under Islam favored agreements between a small number of parties. Therefore, while the West started to develop huge enterprises and early corporations with hundreds to thousands of employees and shareholders, smallness of enterprise was a long-lived phenomenon in the Middle East.

There is a possible pressure worse than conservation: institutional decay is also very real. Fukuyama (2011) in particular emphasizes that the dynamic process by which competition among institutions produces political development can also result in political decay —where decay means the system becomes less institutionalized (p. 452). Researchers have identified that this is particularly true if elites or external shocks are able to undermine economic institutions and divert transition into a negative spiral downward. “No government that has eliminated economic freedom has been able to attain or keep democracy, probably because, when all economic life is absorbed into government, there is no conceivable financial base for opposition” (Fish and Choudhry 2007, p. 7). It is potentially threatening to the open-access equilibrium if popular opinion turns against the free market or if the state is able to operate in what one could describe at a best as an opaque rule of law system. In post-1991 Russia, both cases are true.
IV. The Sophisticated Natural State

“A living culture cannot constitute a repetition of the past; it always gives rise to structurally and functionally new systems and texts. *But it cannot fail to contain within itself a memory of the past.*”

Lotman and Andrevitch, 1985

Notwithstanding several brief periods of widespread unrest and complete political turnover, historians find that Russian political history is cyclical. Hosking (2001) opens *Russia and the Russians* by highlighting how Russia is one of history’s great survivors, existing in one form or another for more than a thousand years—and most of that time being the largest territorial power. Once the Grand Duchy of Muscovy emerged to liberate Russians from the so-called “Tartar yoke,” political life is a long story of repression followed by temporary triumph, which turns out to be a façade as new eras of restraint and subjugation take hold. The same is true today. “Russia’s problem today is not that it has suffered from corruption, but that it has re-embraced the Muscovite system, which for more than 500 years has not only institutionalized corruption, but marginalized democracy, markets, and the rule of law” (Rosefielde spring 2005).

Under our framework, only open-access societies can unleash “institutionalization.” Kinships and personal trust dominate social interaction in the natural state, which is in turn crippling for long-run economic development. Yet, Russia differs from most countries that fall into the natural state category. An underachiever in political measures for its level of economic development, Russia is also a military superpower with high levels of human capital (Fish 2005, p. 103). It turns out that the natural state has much more flexibility for institutionalization than previously thought (even if it is sub-optimal institutionalization). This supports the idea that countries “develop substitute mechanisms” (La Porta et al. 1998). Our updated cycle in figure 5
conceptualizes this with changes in economic development now failing to affect the power dynamic whether it is directly or through social beliefs.

Russian institutionalization is a complex and very much planned balance. Political elite use strategic pressure in both the social and violence channels to entrench the status quo political institutions that enrich them whether it be through intense media drives or subtle coercion by the police. They are able to bring in some of the advantages of open access to increase economic outcomes without risking significant changes to the power dynamic. If elites realize that they have gone too far with liberalization, they will abruptly reverse tact and clamp down on free association. This clamp down, however, is not limited to the typical direct physical oppression common for centuries. Rather, the Kremlin has a diverse toolkit combining propaganda, physical force, and twisted use of law. Tax law in particular is a favorite tool. For example, The Kremlin brought in elements from all areas of its toolkit in the takedown of Hermitage Capital and death
of Sergei Magnitsky (see Neuman 2013). Rosefielde (spring 2005) calls it a “more sophisticated approach than the Western open-access model; The Kremlin does not pretend that there are such Lockean social contract rights and realities. They are master opportunists who exploit reality and illusion for their own advantage and are contemptuous of those who fail in their sophisticated game” (p. 293).

*Figure 6* depicts why this difference matters. EE is the economic possibilities frontier. PP is the political transformation frontier, defined as the economic outcomes achievable by elites pre-institutionalization. “Golden eggs” is when both citizens and elites benefit, so no tradeoff between economic efficiency and political redistribution exists. Elites avoid efficient policies because they are worried it will negate their power and therefore attempt to stop political change at the status quo $S_1$, which is far inside the total economic potential. Now imagine elites were able to change their political transformation frontier, shifting it up and right as depicted by curve RR and the new status quo $S_2$. This results in a number of important changes. First, the economy moves slightly closer to the economic frontier, allowing elites to capture more rent and citizens more income. Second, relative power remains roughly unchanged. Lastly, the stakes are now higher, which makes sense in light of Russia’s violent transitions.
Elites will consider what they are maximizing, how the world works, and what tools are at their disposal (Rodrik 2014). If outcomes are determined by distribution conflict in addition to interests, elites will “innnovate and manipulate” the rent-seeking systems they can put in place just as actors do in an open-access system. Most rent-sharing arrangements under stable authoritarian governments tend to have three parties: the dictator, the leadership of the organized group that can sanction him, and a group of investors who generate a stream of rents in privately owned enterprises (Haber 2008, p. 701). Sometimes, pressure can lead to manipulations that are in fact liberalizing. For example, Deng Xiaoping carefully decollectivized parts of the economy and it turned out to be a huge win for the Communist Party’s political power (Roland 2008). This is not always the case, however. As Acemoglu and Robinson emphasize, it is not always in the interest of those in power to liberalize, even if it would be good for the country as a whole.
Gerschenkron (1955) points out the different impacts mercantilism had in the West versus in Russia. In the former case post-serfdom, it led to a rise of a new capitalist class whereas in the latter case still-present serfdom became “an essential wheel in the mechanism of mercantilist politics” (p. 12). External pressure led to the strengthening of extractive institutions rather than the opposite effect in this case. In other words, not necessarily purely decay or conservation, but some version of perverted development.

What kind of institutions act like this in modern Russia? The “blat” culture of favors, which in Western eyes looks like corruption, is one example. Another is a more flexible concept of rule of law that changes with temporary needs: “violation of the law is a necessary element in the law’s own functioning: one does not exist without the other . . . given a system so distorted, violating the law is often the only possible way of asserting legality” (Pastukhov 2002, p. 67). Such a system ensures that the weak will always be vulnerable to the strong. In this sophisticated natural state, corruption is accepted as an unpleasant fact of life. Natalia Zorkina, one of the original researchers at Russia’s Levada Center, noted, “In Russia, people have completely decoupled themselves from the political process. They don’t believe that they can change anything. Even in the 1990s, only a tiny proportion of people, perhaps 2 or 3 percent, were politically active. Now it is even less” (Matthews 2016). Once such a framework of lawlessness is normalized with no “bright line” holding elites back, nonelites lose a valuable inflection point for revolution. State behavior in Russia, which many citizens in Western counties find appalling, is nothing new for Russians.

A secondary effect of institutionalizing the natural state is that it sets the stage for a new state to “sit in the place of the previous” by adopting the same power structure. Fukuyama’s political decay theory holds that eventually, every state will face turnover since elite will make
mistakes. Russia specifically has a tendency to “seek extreme solutions to problems and to lurch from one set of cultural patterns to their diametrical opposite. In each case the new was presented as the complete supplanting of the old, the dismissal of absolute evil and the introduction of absolute good” (Hosking, 2001). Yet, each new state from Muscovy to the Bolsheviks has eventually adopted a similar, authoritarian institutional structure. Rather than reflecting fundamental transitions in economic institutions and long-term power distributions, these revolutions acted as transitory fluctuations of political power that led to a new set of elites establishing themselves in the seats of the old. Fish (2005) notes his shock as Russia transitioned to a new elite by “the absence of discussion of a parliamentary alternative . . . nearly everyone assumed that the new constitution would include a powerful president” (p. 220). Following collapse in 1991, despite brief support for prescribed market reforms and privatization, the contest over resources largely took place with hired mercenaries. Violence reigned and unsurprisingly the strong continue to reign up to today. By now, it should be increasingly clear that the question is not necessarily imperialism, communism, or capitalism. Rather, it is liberalism versus authoritarianism, open versus closed societies, exclusive economic structures versus inclusive.
V. Critical Influences of Institutional Development in Russia

**Chronology of Major Eras**
- Early Rus’: 800-1240
- Arrival of Christianity: 988
- Mongol Rule: 1240-1480
- Muscovite Russia: 1460-1689
- Imperial Russia: 1689-1917
- Soviet Russia: 1917-1991
- Kremlin Russia: 1991-present

Listing specific historical events that led to transition (or entrenchment) of Russian institutions is a complicated, interdependent process. Rather than outlining events chronologically, I place them into several broadly outlined groups based on where they most accurately affect the institutional cycle in *Figure 4*. Fundamental institutional change may have lasting effects centuries after it started while a failed set of policies several years ago are all but forgotten and obsolete. The importance of rule of law, property rights, and other economic institutions basic to modern political order and economic outcomes is the well-established answer to the question “why some societies are much poorer than others” (Acemoglu et al. 2005; Fukuyama 2011). Our framework in section III is that countries reach such divergence in economic institutions due to political factors over time. The next step therefore is to understand why a country reaches a distribution of power; for us that means tracing Russia’s historical path to its current “sophisticated natural state.” This exercise is best done in two distinct phases as illustrated in *Figure 7*. In the initial formation of the sophisticated state, shocks from Mongol occupation and the spread of Orthodoxy combine with the unique cultural and geographical setting already present to form a set of extractive institutions unique to the Russian case: collectivized notions of rule of law and property, serfdom, and rent-sharing authoritarianism that took the expression of “local Tsars.” In the second phase, shocks from the Bolshevik revolution,
World War II, and the 90s economic crisis crushed any nascent middle class with the resulting side effect of failed transition. Thus, institutions that look very similar in key aspects to those that emerged centuries earlier remain in place centuries into the future.

Phase 1: Initial Setting of the Natural State

The Slavs entered history suddenly, besieging Constantinople itself in 626 with the Avars, a Mongol people (Hosking 2001, p. 29). They settled across Eastern Europe over the next two centuries and adopted relatively advanced Roman agriculture. The next major demographic shift occurred when the Rus’, originally Scandinavian Vikings, ventured south later from areas of high population growth and limited arable land. By the middle of the ninth century, the clan-based Rus’ kaganate had developed into a powerful force. Around this time the Rus’ adopted a more settled life, but communal characteristics such as strong clans, communes, and local assemblies remained prevalent. From what we know of the region, early economic development broke down into “inner” agricultural peoples and “outer” herders, wanderers, and raiders. The agricultural people lived in the more European part of Russia, inside the Ural Mountains, in mainly forested “nonblack soil” regions with sufficient rainfall. The herders lived mainly in the steppe. Herding dominated the black soil region, despite it being more fertile with a longer growing season, because of low rainfall levels. Economic interaction between inner and outer
people often turned violent because outer people had little to offer besides animal products the agriculturalists could already produce. This dichotomy constrained Russian culture for a long time (Kahan 1989, p. 7). But they also would cooperate at times as we see recorded when Even for inner people, early agriculture in Russia was more risk prone than elsewhere in Europe. Rainfall was highly variable, threats from the steppe were present, and the growing season was often shorter. Haber’s (2012) argument is that in these more risk-prone environments, farmers needed more centralized institutions in order to set aside storage. “In short, they had incentives to support a powerful state designed to insure against systemic risk, rather than a limited state designed to protect transactions—Pharaonic Egypt perhaps being the archetype” (p. 25).

While rainfall in early regions of Russia was much closer to that in the West than Egypt, risks ought to be taken in sum rather than only based on rainfall. Using this method, a very similar story is clear in early history of the region. Peasants developed a number of unique coping mechanism to deal with the combination of the agricultural and geostrategic challenges. Forms of the peasant commune appeared very early on. In fact, it was a common institution before princes even had begun to gain power (Illyin 2015, p. 61-62). These communes developed “joint responsibility” in order to address highly variable risk of their environment. Paradoxically, high-risk had a dis-incentivizing influence on Rus’ people. They were disinclined to plan ahead in a calculated, steady manner because the risks were deemed so variable that it was more worth it to survive as best they could in the short term and look to good fortune to help them, while always fearing that “evil spirits” would strike at any time (Hosking 2001, p. 15). An invasion of large magnitude or agricultural shock past a certain threshold is beyond what attainable preparation could insure.
Russian leaders have always stated unambiguously “Russia is a European country” (Migranyan 2015, p. 17). At least in terms of early Russian history, this is hardly the case. Throughout European history as far back as William I’s invasion of England in 1066, innovations in economic, political, and military life had started in one region and then spread to others through conquest, social exchange, or imperial rule. Russia was blocked from this process initially on geographical reasons and later on authoritarianism became a significant challenge as well. As Hosking (2001 p. 21) points out, for most of her early developmental centuries, Russia was more an Asiatic country than a European one.

Even after Russian Tsars had begun to turn West, geography continued to play some role in forming political institutions. It was considerably more difficult for new European ideas and institutions to spread into Russia’s vast continental expanse. Additionally, the predominant view was that unless the entire Russian heartland and all major approaches was occupied, its frontiers were open and vulnerable to attack from an unknown approach. In establishing economic institutions, the composition of land, physical, and human capital all matter and in terms of comparison, Russia is as different from England as possible. “Bigness” in development first was key in the formation of rent seeking, which tied labor to abundant land in the form of serfdom. As Russia expanded rapidly in the sixteenth and seventeenth centuries, peasants migrated away from elite held lands in order to evade taxes, control, and seek their own freedom. Under pressure from the landed elite who formed the military power and civil servants he could draw from, peasants were gradually enserfed to the land to prevent migration. Later, growing Western European demand for grain in the nineteenth century ensured a longer life for serfdom after the initial stimulus under the land-labor ratio began to dissipate (Kahan 1989, p. 155). Past that,
Gerschenkron (1995) argues that Russia’s enormous size contributed to the tendency of industrialization to happen in rapid spurts or not at all rather than at a steady pace (p. 14).

**External Shocks**

Muscovy’s rise to prominence and domination over Russia is inherently intertwined with two long since vanished great powers: The Mongols and Byzantines. The Byzantine missionaries, Cyril and Metodius, had a huge impact on the arc of Russian in the early tenth century by mastering Slavonic, devising a written alphabet for it (thus the Cyrillic alphabet’s similarity to Greek), and eventually establishing a new patriarchate in 927. Several decades later, Vladimir adopted Orthodox Christianity as the state religion after considering Islam and Roman Catholicism as well (Hosking 2001, p. 37). Greek influence was strong during this period as artisans and clergy alike built up civilization in Rus’ until local inhabitants gradually replaced them. For the greater majority of two centuries leading up to initial conflicts with the Mongols, the area was by no means united into what we now know as “Russia.” A state of instability and feuding between princes, not unlike that seen in elsewhere in Europe, was the dominant framework of social structure.

In 1222, a new and powerful enemy appeared on the steppes. After a successful invasion of the Caucasus, the Mongols first invaded Russia for a very brief period in the same year. They were largely successful in a few smaller battles against ruling princes, but disappeared into the steppe again without taking over control. Despite this new outside threat, Russia remained divided between many competing princes. Russian historians often point to division as the cause of the Mongols eventual success. In truth, nothing at the time would have enabled the Russian princes to withstand the Mongol juggernaut of 1237-1240. Nor, at any time during the thirteenth and fourteenth centuries, could Russia have overcome the Golden Horde. Fueled by efficient tax
collection and control of key trade routes, the Mongols boasted a powerful balance of a huge nomadic army and an urbanized bureaucracy. No matter how efficient the state became or what calculus elites made, Russia would be overrun if the Mongols decided to do so. This was much different from the setting of war in Western Europe under Hoffman’s model. Even over two centuries later, Russia had little to do with the eventual collapse of the Golden Horde (Halperin 1985, p. 32). It is unsurprising therefore, that swift campaigns by Genghis’ grandson Batu devastated Rus’. Many historians theorize that only the demise of Batu’s father, which caused him to return to the capital, saved other major parts of Europe from destruction (Halperin 1985, p. 47).

The “Pax Monglica” had enormous destructive costs, but it also made significant contributions to the political institutions, economic development, and cultural diversity of many lands under Mongol control. Russia was a unique case compared to other Mongol territories; it remained largely unoccupied because it had little to offer. It was neither steppe, nor located on important trade routes. To Russians, taxes may have seemed heavy, but for the Mongols it was a relatively insignificant source of revenue compared to rich trade routes to the south. At the same time, Russia was also too close to the steppe for its own good. Even the most remote Russian city was within easy striking distance. Thus, the Tartars were able to control Russia easily without direct occupation for as long as conditions on the steppe were favorable (Halperin 1985, p. 31). The Golden Horde relaxed control after its initial devastation of the area, allowing Rus’ princes to take over the role of tribute collector and administrator (Hosking 2001, p. 55). This system would remain in place for two centuries, creating a competition between local princes over who would serve in the role of the horde’s agent. This light hand had benefits: lower cost of security, protection from potentially more destructive conflicts, and contact with the broader Pax
Monglica world. It had one significant and lasting negative effect as well. It unified Russia under a central institutional system focused on rent extraction for Tartar overlords. The agent-patron relationship, incentives, and institutions in this case are strikingly similar to what Europeans would employ in South America centuries later, which resulted in similar harmful long-term effects as in Russia when compared to the inclusive institutions they brought to North America (AJR 2001).

The Tartars practiced thoroughgoing religious toleration, this even extended to taxation. Temples and churches were all granted tarkhan, a charter of immunity from tribute and other fees (Hosking 2001, p. 50). While introduced several centuries earlier, the countryside was still largely pagan throughout Rus’. It was during the Mongol period in the fourteenth century that the Church really thrived and began to make inroads among the broader population—in part thanks to favorable tax privileges and security. Orthodoxy was also seen as a way to push back at Mongol overlords, becoming not only a religious identity but also a national identity and symbol of political unity. This newfound popularity gave the Orthodox Church unifying power across social classes, which over time became so powerful that “insofar as paganism was thought of as non-Orthodoxy, non-Orthodoxy began to be thought of as paganism” (Lotman and Andrevitch 1985, p. 41). Despite growing social pushback, once Muscovy rose, its civil and military institutions were largely Mongol in origin (e.g. military strategy and armament, taxation, state customs, and communication systems to name a few). This left the Church and Orthodox bookmen trying to modify or deny accounts of Mongol influence. As it spread, Orthodoxy affected primarily xenophobic and anti-materialist social norms, but it also contributed in part to authoritarianism and the lack of rule of law.
It is probably more accurate to speak of a Muscovite world today than anything else. Nobody would have predicted the rise of Moscow in Rus’. The small state was not mentioned in historical texts until 1147. Moscow’s expansion and eventual primacy in the second half of the fourteenth century was deeply connected to its relationship and positioning relative to the Golden Horde, its geographic location, and adoption of seemingly small institutional changes. Previously, Tver was the strongest principality and given what was known as the throne of Vladimir, which essentially meant it was the primary agent under the Golden Horde. However, Muscovy was able to wrestle the title from Tver due its friendlier position with the Golden Horde (Halperin 1985). Muscovy developed a special relationship with the Mongols and more often than not worked alongside Tartars rather than against them. This was reinforced when Moscow aligned itself with the Golden Horde against the threat of Lithuania. “Moscow had allied itself with the Mongols when the Golden Horde was strongest and then seized more autonomy when the Horde faltered . . . Moscow came out on top not because its princes were more ruthless or craven but because they were shrewder politicians” (Halperin 1985, p. 88). Hosking (2001) points to Muscovy’s unique capacity for endurance and ability to wait for long periods until its opponents weakened (p. 6).

Random campaigns into Russia by various steppe clans in the early fifteenth century signaled enfeeblement of the Golden Horde. Tamerlane had sacked the Horde’s capital slightly earlier in a major struggle and rerouted caravans of Asian goods south so as to bypass the Horde and by the middle of the fifteenth century Mongol influence was fragmented permanently (Halperin 1985, p. 29). In an interesting turn of events, Muscovy faced off a Tartar army in 1480 without a pitched battle. Little did they know that it was to be the last major invasion of the
steppe into Russia. The tides of history would reverse in the other direction. More warfare, in the post-Mongol period, eventually decided the outcome in favor of Muscovy.

Muscovy’s rise not only coincided with the decline of Mongol power, but also with significant changes in the distribution of Orthodox power. As mentioned, Orthodoxy in Russia had grown mainly while still under direct Tartar influence. This system signaled the beginnings of duality. By the end of the sixteenth century, the Church’s ideology was in place, the Mongols were the enemy and to be resisted. At the same time that the “Tatar yoke” first appeared under Orthodox bookmen depicting Russian princes leading brave resistance, those same princes were assimilating Tatars into key roles in the military and administration in large numbers (Ostrowski 1998, p. 248).

Around 1440, the Rus’ Church began to operate virtually autonomous. In 1448 Muscovy effectively declared itself its own patriarchate. This rise of Orthodoxy in Russia coincided with the fall of Byzantium in 1453 when the Turks successful sieged Constantinople. While this was a huge loss of an external spiritual anchor viewed as the source of true religion, Russians thought the Byzantium Empire had fallen because of its sins (Constantinople had reversed course and appealed to Rome prior to its fall). Muscovy was therefore suddenly thrust into position of responsibility for the whole of “right-thinking” Christendom at the very time it was seeking a new basis for its own statehood. The muscovite ruler replaced the Byzantine basileus as the protector of the Church. Thus, creation of a virtual past now included the Tartar yoke and Muscovy as the true inheritor of Kievan Rus’ as well as of Byzantium (Ostrowski 1998, p. 142). In this way, the churched helped establish the preeminence of Moscow in the Russian world.
Formation of Muscovite Institutions

At first, Muscovite rulers occupied an ambiguous space, unsure what strategic role to take. It was not until 1547 at the coronation of Ivan IV that the term tsar (basileus, emperor) was officially first used by the court; but even then, it was unclear if that meant basileus or Chinizid khan (Hosking 2001, p. 85). Nevertheless, Muscovy steadily consolidated the non-steppe areas of Russia. Near the end of the fifteenth century, it defeated Novgorod and absorbed it into Muscovy by weakening the independence of the Church and other institutions. The Muscovite Tsar started to serve a dual role over church and state, thereby eliminating a traditional bulwark against the concentration of power. Part of Muscovy’s success during this period in unifying northeastern Russia is due to its adoption of Mongol military and administrative methods. One key break with Kievan tradition dealt with inheritance, which now went to individuals rather than to the dynasty as a whole (Hosking 2001, p. 72). Another dealt with land ownership in general. The Mongols had adopted the Chinese principle that the land belonged ultimately to the ruler, which they brought westward. Muscovite grand princes eventually adopted this principle too, breaking with the Kievan Rus’ mold that gave title over land to the boyars (Ostrowski 1998 p. 47). Muscovy continued its momentum, defeating Kazan, the strongest Golden Horde successor, in 1552. This victory brought control over nearly all the European area of Russia as well as the Volga and the trade routes it was critical for. Thus, by 1600 Muscovy had expanded into the Caucasus and most of its Western Empire. By 1700, it tripled in terms of territory, enveloping huge areas in the East all the way to China and the Pacific.

Soon after the collapse of Tartar control, Russia integrated where Europe remained divided. The Muscovite Tsar emerged as the sole authority over both church and state, whereas in Western Europe other agencies gained prominence. Geography alone does not explain why Europe was fragmented and Russia was not. Prior to Mongol invasion and for most of its control,
Russia was also fragmented with no signs that this would change. The Great Man theory also is not a satisfying explanation because unlike Alexander the Great, Napoleon, or other great empire builders, Muscovy’s rise and subsequent control was not dependent on one individual. It was consistent for centuries, under both powerful and weak leaders. Granted, leaders like Ivan the Terrible, Catherine, and Peter accelerated and strengthened centralization, but they are not the root cause. Institutions make more sense in this case because they are the only thing that explain both the timing of the rise of authoritarianism and central control over Russia as well as its durability. Hoffman (2015) points out that both China and Russia ended up strongly united after centuries of Mongol control. Although there are serious differences between the two countries, a distinct parallel is the shared institutional system developed at least in part due to Mongol influence.

In no other European country did government play as prominent a role in so many aspects of life as in the case of the growing Russian power. Especially in light of its huge expanse, the state could not control everything, but it did develop an unquestionable and immense authority. “This [distinct authoritarianism] was a major element of the Muscovite heritage” (Kahan 1985, p. 2). As North et al. (2009) predict, during the progression of a natural state, the elite expand their circle of support by the exchange of rent for services (e.g. English crown-granted monopolies in the form of “estates”). Russia adopted a similar, yet even more rigid system that granted absolute power to the Tsar:

Russian authoritarianism, at least since the rise of Muscovy under Ivan the Great in the 15th century, has been predicated on rent granting (the obverse of rent seeking) rather than inalienable property and the rule of contract law. Unlike its Western counterparts, it has been a patrimonial society, where the ruler owned all he surveyed, and granted (pomestie) his supporters "kormlenie" (feeding troughs) in return for state service (Rosefielde, spring 2005).
The Tsar even had power to arbitrarily reverse grants. England, in contrast, created more laws surrounding its similar system early on. The Magna Carta, for instance, gave more protections to the church and barons. The Russian term for state, “gosudarstvo,” means literally “lordship,” and does not distinguish ownership from political authority (Hosking 2001, p. 91). Thus Muscovy’s patron-client relationships were unique for their cohesive structures at both the apex and the base of society with weak, formally absent institutions in-between. The result was a personal state antithetical to development of consistent rule of law.

Authoritarianism in Russia arose from domestic considerations and drew the majority of its moral and cultural basis from Byzantium rather than Sarai. Still, just as Moscow availed itself of Mongol institutions, Muscovite autocrats made the Mongol imperial tradition serve their purposes. Part of this was conscious decision in light of completion with other principalities for dominance, and part was likely just maintaining the status quo that the Tartars had enforced for two and a half centuries. Adoption of Mongol institutions both formal and informal gave significant power to the emerging Muscovite system. It was significantly more efficient in war, tax collection, and administration than any of its competitors in Russia or the steppe.

A more specific institution that emerged during Muscovy’s expansion and served to enable Russian authoritarianism was serfdom. As discussed in section IV, the goal of the natural state is ultimately control; this was an increasing challenge, as the Tsar’s imperial ambitions required the ability to command more power. In response, the state expanded the class of servitors (elites granted land in return for service to the Tsar). As the Tsar succeeded in expanding territory with the help of his servitors, this ironically created a new problem for them: peasant migration. Peasants left servitor land for new areas in order to avoid tax collections, control, and generally seek opportunities not available to them elsewhere. Russia therefore faced
a significantly different land/labor ratio than other European countries, which meant that labor was more important for rents than land. Because authoritarianism was already largely unrestrained, it was not particularly difficult for the Tsar and elites to begin to arbitrarily tie peasants to land. This example contrasts significantly with what would happen several centuries later in another huge territorial expanse, North America. Many settlers who originally left Western Europe to cross the Atlantic, or continued pushing West later on, were responding to similar circumstances as Russian peasants. What allowed the difference in results? In a way, the English attempted to institute a slightly more extractive system following its costly Seven Years War with France, but it was already far too late to enforce such a system. There were several key differences in this case: the harsher climate had led to a more communal system in Russia from a very early period, there was central Orthodox imperative connected closely and legitimizing the state, and finally Mongol occupation had left Muscovy with a legacy of extractive institutions the Tsar quickly modified to his own purpose.

Economists often assume that serfdom or slavery will naturally disappear because of the inherent superiority of free labor and the greater incentives for production it brings (Domar 1970, p. 2.) Indeed, without serfdom Russia would have been much more economically efficient even early on (refer back to Figure 6), but it also would have been impossible for the Tsar to centralize power under his control. Serfdom was ineffective at sparking productivity. What it was highly effective at was distributing economic privileges and control to servitors in return for taxes and military support. Revolutions of the type seen in England never occurred because of barriers to both the landholder and serf classes. As we know, dissatisfied barons and other middle-elite drove early reforms in Western Europe. The conditions for Russian property owners or serfs we identified in section three never existed (collective action to gain transitory power,
political reform to institutionalize that power, and corresponding change in economic institutions). Overall, the servitors were happy with their expansive power under the Tsar. Thus, if the Tsar removed one servitor for any stated reason, the rest viewed this more as a political reality based in the Tsar’s supreme authority than a violation of law. For everyone else, the costs of collective action were extremely high due to geographic remoteness, instant repression, and powerful cultural support of the Tsar from both Orthodoxy and Russia’s collectivist heritage. What little protest did occur was even counterproductive. For example, the “Salt Riot” in 1648 resulted in the “Sobornoye Ulozheniye” or assembly of land, which codified serfdom and other extractive institutions.

An interesting exercise that highlights some of the characteristics of economic institutions in Russia is comparing the systems surrounding serfdom in Russia to those in England. Dennison (2014) notes that a striking feature of serfdom in England is that there really was something like a coherent and consistent state law. While Russia is authoritarian, England was actually much more centralized. Serf owners in Russia were the equivalent of mini-Tsars, exercising absolute authority in their domain, a kind of de-centralization of absolutism. Dennison describes how in Medieval England a system of manorial courts constrained arbitrary power through centralized customary law. Even if, such protection was weak early on, just the notion that there was some customary law is important. Few Russian landlords offered any kind of consistent judicial services to their serfs (Dennison 2014, p. 259). This is important in one sense because it directly affected the underdevelopment of rule of law in Russia. A second, less apparent reason is how it affected centuries of interactions for the majority of Russians. Oppressed Russian serfs still engaged in limited market activities, largely with each other, such as trade of minor goods, services, and sometimes the exchange of land. In Russia, these aspects
occurred in an informal, poorly enforced environment, which meant that further development was largely constrained. Whereas in England, individual agreements and responsibilities were directly enforced much early on. The serfs’ ambiguous legal status often forced them to pay bribes for access to goods and services they could not obtain through the formal market. In some cases, bribes were even noted in historical records of account books (Dennison 2014, p. 265).

Since the central tenant of institutions is accumulating societal knowledge of how to conduct interactions, this underdevelopment is critically important. It points to prominent themes of the black market and blat in Russia under both the Soviet Union and today. Again, evidence that institutions today reflect long historical legacies.

Some estimates state that Russia would have been twice as rich by 1913 had it abolished serfdom in 1820 instead of 1861, as was considered by Alexander I (Markevich and Zhuravskaya 2015). We already discussed why those benefitting from this inefficiency were protected in a way from those who would have benefited from abolishment organizing in revolt. There is also the question of effects beyond initially measurable economic outcomes,

In the process of preserving the institution intact, the serfowners not only became brutalized, but the whole body politic became dehumanized and permeated by elements of lawlessness. Thus, the changes imposed on Eastern Europe in the nineteenth century found neither the basic legal institutions nor the prevailing social attitudes ready to accept them. The political authorities were primarily responsible for the abolition of serfdom. And as a political act, it had to signify a break with the institutions of the past, the most visible and perhaps the most obnoxious symbol of which was serfdom (Kahan 1989, p. 156).

Serfdom corrupted owners, reduced production, and shaped adverse incentives for peasants to invest in land or their individual human capital. Often, they turned to the peasant commune as a way to distribute both exploitation and general riskiness of life during the time from famine to disease.
The third and potentially most important state institution for understanding the overall institutional system is the commune. Geography influenced its initial formation: the collective, as a relationship between the state and the commune, is traditionally responsible for famine relief (Kahan 1989, p. 136). Serfdom had a reinforcing effect because a system of collective responsibility was convenient for landlords. It minimized administrative costs by delegating responsibility to communal officials to allocate, collect, and deliver rents:

The community – or commune – in Russian serf society was a formal corporate entity, which raised its own funds and assumed collective responsibility for a set of clearly defined obligations. Nearly all feudal burdens were levied collectively. Quitrents were assigned as a lump sum for communal officials to allocate among households. Labour obligations and recruitment levies were assigned in the same way, as was the state poll tax, for which all male serfs were assessed. Access to woodland and pasture was granted to the commune as a whole; rights to these resources were assigned to households by communal officials. Communes were responsible for selecting members to fill posts ranging from reeve or steward to tax collectors and constables. They were supposed to use their collective funds to pay these officials, and to provide relief to their poorer members (Dennison 2014, p. 254).

This collectivization of responsibility, rights, and obligations was largely absent in England, where such factors were determined on an individual basis.

If the Tsar and servitors make up the first two levels of extractive institutions in the natural state, their existence is built on the commune. They were dependent on the specific form the commune took in Russia, which continued inefficient, conflict based incentives over best interest. “Strong communes persisted not because they efficiently maximized the economic pie, but because they distributed large shares of a limited pie to village elites with fiscal, military, and regulatory side-benefits to rulers and overlords” (Ogilvie 2007, p. 663). This relationship is strikingly familiar to that a level higher between servitors and the Tsar. The key to understanding the sophisticated state is its personalized extraction pervasive at every level of society. The true source of Russia autocracy is not the all-powerful distant ruler, but the local absolutist one.
interacts with in everyday life. Russian director Andrey Zvyagintsev’s *Leviathan* (2014) offers a vivid portrayal of personalized and local absolutism that continues to exist in Russia today. The film depicts a family’s struggle against not only a corrupt local mayor who eventually successfully expropriates their house and land, but also the broader institutional system prevalent in every aspect of life: Orthodoxy’s relationship to power, alcohol abuse, and social relationships that reinforce corruption and authoritarianism rather than uniting against it.

Returning to the old commune, data following emancipation confirms a continuing negative effect for areas of strong communal power. There is no good economic explanation for why strong peasant communes existed stably for centuries. In North America for example, such systems were soon abandoned because of their inefficiency (e.g. Jamestown). Emancipation was not necessarily in a liberal understanding of the term because rights to land were often distributed as communal property rights. While emancipation did have a large and positive effect on agricultural productivity, land reform sometimes had a negative effect through the channel of increased commune power (Markevich and Zhuravskaya 2015). Just as before, communal regulation of land, migration, trade, and technology hindered efficient production and motivation.

A fusion of early economic heritage, Mongol occupation, and new widespread Orthodoxy led Russians to pursue a kind of freedom very different from what representative government grants under the liberal model. *Pravda*, was the collective wisdom of the community accumulated over generations. While elements of this differing take on freedom existed prior to the introduction of Orthodoxy, the split between Roman and Greek origins illustrates the divide. The Greek states gave its successors philosophy, literature, poetry, art, and the first direct democracy while the Roman Republic contributed the first beginnings of rule of law and limited
government (even if the ruling class was exempt for centuries). Well into the early modern world, Rome and at first Constantinople, then Moscow were the cultural centers of this divide. French philosopher Benjamin Constant (1819) terms the divide as liberty of the ancients versus the moderns. The liberty precious to modern nations focuses on the individual’s right to only be subjected to laws and includes things like expression, freedom of movement and association, and some influence in administration. In contrast, “The liberty of the ancients consisted in carrying out collectively but directly many parts of the over-all functions of government.” Similar to collective responsibility and objectives of the commune, the ancients according to Constant saw no inconsistency between “collective freedom and the complete subjection of the individual to the authority of the group” (Constant 1819). The Russian model was that supreme authority of church and state embodied the freedom and will of the people. It implies that authority and people are integrated into a single body politic, “people and the party are one” (Illyin 2015, p. 63). The individual was thus a slave to the community, while at the same time supposedly being truly free in the community.

As Russia interacted more with Europe, they also came into contact with evolving liberalism in a large part driven by the Catholic Church, which emphasized rational, scholastic, and textual guidelines. The Russian understanding was fundamentally different. For example, Dostoevsky rejected the rational and formalistic Latin model, arguing that a view based on the mystical, on personal religious experience, on a higher status provided less of a menace to personal freedom. The irony of history is that this disorder was the worst thing for freedom (Newcity 1997, p. 49).

Despite Peter’s drive to modernize Russia in a European model, Russia recoiled from Western liberalism and at no point really integrated key institutional aspects, both formal and
informal, of liberalism. Leontovitsch (2012) outlines the sad history of liberalism in Russia in his comprehensive work originally published in 1957. He traces the oft-neglected facts and arguments that generally obscure the true history of what is happening. For example,

Take Nikolai Karamzin, the distinguished historian known for his defence of autocracy and advice to Alexander I to resist Mikhail Speranskii’s reform proposals. He opposed emancipation of the serfs and thus may look irredeemably conservative. But he did so on the grounds that unless the gentry’s land was in large part transferred to the peasants, their position would be intolerable. To move forward, he called for allowing serfs the legal right to acquire true property rights in land (a legal right granted only in 1848), which would have enabled them to develop the capacity to stand on their own without any need for tutelage, either by landowners or by the state (pp. 61–62).

Leontovitsch explains how the development of liberalism in Russia was fatally crippled by long-standing commitments to collectivism and paternalism. The survival of rural peasant communes in particular inhibited the development of a wider consciousness of liberal civil law.

Liberalism is critical in the political realm because it not only guides norms and formal rules, but it also is the foundation for the spread of de facto power in any society. If individuals and the groups they form have vested all power in the state, they have no ability to bring transition or protect the basic economic institutions critical to development. Westerners often puzzle over the willingness of Russians to accept authority in what is, at least on its face, a democratic state. Such a concern is fair because one cannot both reject liberalism and accept democracy because doing the first is the direct path to authoritarianism. This is at odds with Adam Przeworski and his school of democratic thought who base it on elections and opposition. Such a view based on elections is only the shadow of democracy on Plato’s Cave. One has to examine the overall institutional system over time; “a key characteristic of a democracy is the continuing responsiveness of the government to the preferences of its citizens, considered as political equals” (Dahl, 1971). An open-access society, based on Constant’s modern liberalism, is dynamic. It balances power between competing organizations and adheres to established rule
of law. In contrast, the natural state of the ancients and of Russia today is static. It invests complete authority from the people to the elite who is then justified in all action.

The impact of the mainly informal institutional history of Russia’s authoritarianism and Eastern concept of liberalism permeates all areas of life. Perhaps one of the most significant specific examples is in rule of law. La Porta et al. (1998) show legal origin is a major determinant of economic outcomes because some forms will lead more naturally to organizations and rights that are conducive to economic growth than other forms. In their first study (1998), they compare countries with German, Scandinavian, English, and French origins. Russia is not included as either its own category or under one of the others. In a later study, they trace Russian legal origins to French law in the nineteenth century as a largely voluntary adoption when Russia sought to modernize (La Porta et al. 2008, p. 290). Later, they point to socialist law. While there work clearly shows that rule of law affects economic outcomes, their historical explanation of Russian law is flawed. As shown earlier, Russia never really adopted liberalism in its push to modernize. Fukuyama gives a more convincing source, arguing that rule of law originates from religion; first as a set of norms and then gradually codified. Broadening Fukuyama’s argument to include factors with influence similar to religion fits well with the narrative developed in this paper. The Mongol invasion and split between Byzantine and Rome are “the first two of the reasons why the Russian legal tradition is fundamentally different from the Western legal tradition” (Newcity 1997, p. 47).

These events reinforced the already present communal source of justice, responsibility, and freedom creating the basis for rule of law more deeply separated from the groups La Porta et al. identify (1998). Rule of law in the Roman sense never made inroads into Russia. Whether it is Tsarist Russia, Communist Russia, or Russia today under the Kremlin, a constant theme persists
through Russian legal thought. As Nikita Khruschev said to his prosecutor general who protested that the law did not allow him to put a group of people caught in black market activities to death, “Who’s the Boss: we or the law? We are masters over the law, not the law over us —so we have to change the law; we have to see to it that it is possible to execute these speculators” (Simis 1982, p. 29-31). The use of law as a political weapon perverts the idea of equality under law.

Pluralism rests on competing centers of power. The barons who forced the Magna Carta into existence were not themselves virtuous, but they kept the crown in check through rule of law by creating at least a basic standard. Yet, this concept has never gained traction in Russia. As Count Sergei Witte, and influential finance minister during Russia’s attempted industrialization at the turn of the nineteenth century, commented:

... the people have been systematically, over two generations brought up without a sense of property and legality ... what is an empire with one hundred million peasants who have been educated neither in the concept of landed property nor that of the firmness of law in general? (Quoted in Pipes 1990).

Even today and despite pressure from potential efficiency gains, public opinion has continued to regard individual freehold property in land as immoral. (Hosking 2001, p. 17). Now that we have traced the rise of this institutional system, phase 2 outlines failed attempts at transitions and the unique durability of the Russian sophisticated natural state.

**Phase 2: Failed Transition, Reinforcement, and becoming the “Sophisticated State”**

As Russia joined the Europe as major imperial power, it was forced to reform over time in order to compete in the tournament. These reforms, however, would fail to initiate real transition from underlining authoritarianism and illiberalism; Russia always “stopped half-way between its feudal heritage and modern capitalist practices” (Sachs and Pistor 1997, p. 6). Development needs time, especially if countervailing institutions are already strongly in place. Such was the case for Russia when under Peter I it first began to open to the West. By then,
political and social institutions were firmly in place, creating a strong roadblock for reform. Yet, Muscovy was not the only country to result from invasion. The manor system eventually important to the development in England was put in place as early as 1066 by William the Conqueror in order to create an institutional system that could maintain his power (the Norman invasion of Europe is one of the more straightforward examples of violence-driven transition). England then moved from a fragile natural state gradually to a mature state with the beginnings of impersonal institutions governing, regulating, and enforcing property rights. It is not coincidental that this move occurred at the same time the British Empire started to become a major world power. Open society is remarkably powerful.

Russia’s introduction to the broader competitive tournament at the start of the nineteenth century was both unluckily rapid and eventually overwhelming. Ever since Mongol disintegration, Russia had been at almost constant war, but conflict was incentivized differently than the European model. Not to mention Europe’s significant head start. Western Europe faced survival by efficiency whereas Russia used its size to overwhelm smaller states with attrition warfare. The Tsar’s strategy was population expansion because their military power depended on size to a larger extent than military technology (Kahan 1985, p. 18). This strategy worked in part thanks to the now unified Orthodox Russian identity as well as the centralized bureaucracy modified from the Mongol Empire. Then a series of costly coalition wars ending with Napoleon’s invasion in 1812 began to threaten Moscow’s stability. Before Napoleon, Russia had fought mostly with success almost exclusively against smaller regional powers (e.g. Poland and Sweden) as well as the waning Ottoman Empire. Even though Russia was able to retreat deep into its vast population and geography, this was pivotal moment of military history: Advances in
technology, organization, and strategy had begun to speed up in Western European states while Muscovite institutions blocked similar progress for fear of losing power.

The Crimean War (1853-1856), described by Solzhenitsyn as “self-assured madness” (1995, p. 49), signaled the finality of this split. The Russian Empire responded to familiar incentives of territorial expansion, but was defeated badly and sued for peace. Russia could not continue to rely on personalized forms of authority, which resulted in domestic backwardness, and still compete internationally.

Centrally mandate efforts to industrialize met with some success. Economic historian Arcadius Kahan (1989) records a number of figures showing rapid growth as Russia implemented Western technologies from 1860 to 1917. Notably, the value of exports increased tenfold, taxes sevenfold, and railway went from basically nonexistent to covering 80,000 km. Yet, progress in economic outcomes from borrowed technologies was not a good guide for the institutional system. Internal politics hovered uneasily between two incompatible systems. The personalized power structure was shaken and had ceded de facto power, but it was not replaced with the formation of rule of law and other key institutions. As a result, a growing working class and potential middle class did not fully materialize or share in growing production. Additionally, there was cultural pushback against the perceived “Europeanization” of Russia. Unfortunately, unfair consequences of these new economic outcomes were attributed to Western ideas than to lingering extractive institutions. Since the West was anti true Christianity, they saw it as “infidelization” (Lotman and Andrevitch 1985). Perhaps the last straw that doomed liberals arguing for individualism was their poor strategic track record in trying to implement reforms, which resulted in further negative reception. For example, from 1906 to 1914 new laws allowed peasants to separate their property from the commune. The problem for public opinion was that
many who did so were groups who foresaw a reduction in their allotments the next year. This was perceived as a grave injustice and only reinforced negative views of capitalism (Kingston-Mann 1999, p. 176).

This was also a period when the Russian government’s political and military ambitions came into sharp conflict with the objective of industrialization in the competition for resources. The Imperial Russian Army was badly beaten first in the Russo-Japanese War (1904-1905) and then in World War I (1914-1918). Both wars exposed technological and logistical shortcomings, but perhaps their biggest influence was the loss of faith in the imperial institutional system. Ironically, the system that replaced it, communism, was imported from the West where liberalism had been rejected based on that very reason. The key difference was that liberalism required significant institutional change at odds with deeply rooted historical legacies, whereas communism was largely compatible with the collectivist and authoritarian bent in Russian institutions. Karl Marx thought that Russia was the least susceptible to a socialist revolution because it was an authoritarian, agricultural nation, but this was not necessarily the case:

[Describing Marx’s prediction] . . . events revealed he was prophetic, because Lenin's abolition of property rights in 1917 did not destroy anything that was real. Authoritarian politics remained in command. Only the formal rules of the game changed. Instead of noble "servitors" acting as state agents with "situational" property rights, "commissars" filled the same role as administrators with privileges. For westerners who could not fathom Muscovite realities, it seemed as if capitalism had been displaced by communism. But for more astute observers like Alexander Gerschenkron [1966, 270-95], the statism of the Bolshevik autocrats simply replaced that of the Romanovs. Everyone's shoulder was pressed against the wheel, without any possibility of independent action supported by inalienable rights. (Rosefielde spring 2005, p. 291-292).

Much literature has focused on the communist century, but for our analysis of institutional change, there is surprisingly little of note here because important institutional systems were already in place. As Moore (1966) would later describe using reference to revolutions like those in Russia and later in China, peasant revolutions lead to communism whereas bourgeois
revolutions lead to capitalism: “No bourgeois, no democracy” (p. 418). Communism in the end followed in the footsteps of Russia’s authoritarian heritage.

This period did serve to fortify extractive institutions through repression of capitalists, kulaks, and the enormous tolls on human capital in World War II. Moore (1966) describes how the kulaks in late nineteenth-century Russia fill essentially the same role as sixteenth century yeomen in England, yet are demonized to this day as greedy and immoral while yeomen are lauded as heroes (p. 110). Why were individual entrepreneurs viewed so differently? The reason goes back to the original institutions discussed in phase I. Self-interested, prideful, and individualistic yeomen or kulaks stand in direct opposition to authoritarian and collective. Those same qualities are also the basis of liberalism, but now a third element that attributes liberalism to the immoral and un-Orthodox West actually twists this to be counterproductive. The very thing that would bring more prosperity and freedom is rejected because it is caricatured with suffering. Gerschenkron (1955) describes it as “a divorce of the country’s intellectual history from its economic history” (p. 33).

In section III, we identified the importance of human capital accumulation, which can be equivalent to building a middle class. The Soviet Union suffered catastrophic losses on this front first due to Stalinization and then during World War II. Stalin notoriously targeted higher classes, from party members to Read Army officers, for elimination. In a perverse way, he understood that diversified de facto power was a threat to his control, so he killed those who possessed it before they could collectively organize. The death toll of WWII was slightly more indiscriminate, but also incredibly costly. Total casualties in the Soviet Union are around 25 million, nearly 20% of the total population. Losses for the U.S., by comparison, were about half a million. If you were a male born in 1923, you had as high as a 97% chance of being dead by
1946 (Willmott 2008). Pinpointing exactly how this massive death toll affected social transition is difficult, but it is reasonable to believe it would have been devastating for trying to build a middle class to base a transition to liberalism on. Acemoglu et al. (2007) are able to sort out some effects by examining the severity of Jewish persecution by region. Jewish populations “essentially formed the middle class” and in most areas accounted for large percentages of those involved in commerce, medicine, and other industry (p. 902). During WWII, the heaviest Holocaust persecutions occurred in Eastern Europe. Their research finds evidence of lasting impact on social structure and by extension economic outcomes across different regions of Russia. “The magnitude of some of the effects we find are large and only rationalized if the Holocaust unleashed a process of divergent economic, political, and social development” (p. 943). In other words, the effects could only be as significant as they found if they had broader institutional implications.

It is impossible to overlook that the Soviet Union, especially early on, recorded impressive economic growth as it rose to a superpower. Many Westerners long thought communism was the inevitable future. Indeed, it was not unpopular in the U.S. at the time to view the Soviet economic system as superior. Journalist Lincoln Steffens (2011) famously said, “I have seen the future, and it works.” Yet, the USSR was only able to stimulate convergence growth we have discuss earlier. There is some evidence that control offered in authoritative regimes can allocate capital to produce higher growth rates temporarily, but eventually real benefits provided by individualism are more important and stable. Gorodnichenko and Roland (2016) identify that “the benefits of individualism affect the output growth rate while the costs of individualism affect the level of output. In the long-run, the former effect, which is dynamic, should thus dominate the latter effect, which is static.” Acemoglu and Robinson (2012) point out
a similar relationship, concluding that eventually extractive institutions run out of easy gains resulting in institutional collapse (p. 124).

Following the Soviet Union’s inevitable collapse in 1991, a slightly different story played out, but with largely the same results as in 1917. Increased support for liberalism proved to be fleeting as the economy entered a deep recession, the general population suffered, and rule of law ignored by the strong at the expense of the weak. This was unfairly blamed on Western institutions, both political and economic. Natkhov and Polischuk (2017) follow this dramatic change in the public mood and outline a reversal to “survival values” (p. 43). The solution was a return to the personalized state. All levels of economic life depend on the state. “The degree of this dependence only increases with time, since the solution to virtually all social problems occurs, one way or another, with the participation of federal or city administrations” (Pastukhov 2002, p. 72). Even at the outset, outside political commentators were disturbed by presumptions of a strong presidency and this became especially true following the constitutional choice to move away from legislative power in 1992 and 1993 political power struggles (Fish 2005). Today, it is becoming increasingly clear that Putin has restored, and even strengthened, the Russian power vertical first traced back centuries ago.

Surveys show that 70% of Russians say breakup of the Soviet Union was a bad thing (Poushter 2015). Even Solzhenitsyn, an outspoken critic of the Soviet Union, takes a compromised position focused on “Russians,” “the breakup occurred mechanically along false Lenninist borders, usurping from us entire Russian provinces. In several days we lost 25 million ethnic Russians —18% of our entire nation” (1995, p. 90). Russian elite use deep cultural memory of very real trauma brought on by external threats from the Mongols to WWII to build a new virtual reality. As Solzhenitsyn continues, “The active interest of many Western politicians
in the weakness of Russia and in her continued fragmentation is beyond doubt” (Solzhenitsyn 1995, p. 96). Today, according to Natalia Zorkina, one of the founders of the independent sociological research organization the Levada Center, elite have successfully “re-created the Soviet siege mentality, the complex of being surrounded by enemies . . . Putin has also rekindled the old Russian imperial idea, with its superiority complex and the idea that we are on some special historical path” (Matthews 2016). This social pressure acts as a shock, only in reverse because it deters transition and locks the sophisticated state in place. Russians support a strong leader because they believe that they are under threat.

In addition, elites have successfully convinced the public that rejecting the West means rejecting liberalism. Solzhenitsyn for example describes a fight for a moral Russia, an Orthodox Russia, and laments the pushing out of Orthodoxy by materialism and western values (1995, p. 108). This is not necessarily a new phenomenon. Ever since Peter’s efforts at reform, many Russians have worried that being civilized and modern meant being “Western” and not “Russian” (Kingston-Mann 1999, p. 187). Gerschenkron (1955) notes how this idea is especially pervasive among the intellectual class, the same class who typically drives positive institutional reform and development. For example, he quotes the Russian intellectual Herzen, “Do not forget that in addition Russia remained ignorant of the three scourges which retarded the development of the West: Catholicism, Roman law, and the rule of the bourgeoisie. Your labors and your sufferings are our lessons” (p. 24). While over the course of history Slavophiles with this view have not necessarily held direct power, this set of beliefs underlies more important institutional realities. Not only are educated classes who organize and drive reform nonexistent, weak, killed, or repressed at various stages as we have traced, but they also repress themselves because of strongly held beliefs about how the world works.
Widespread corruption, stagnation, and unsatisfactory growth rates signal both the decay and conditions created by the sophisticated state. An accurate prediction that Russia would fall back into a familiar institutional system rather than transition to open-access could have been made on one critical fact alone: the lack of impersonal organizations. Fish (2005, p. 4) noted early on that it was clear that the new Russia was not teaming with civil society, but rather any movements that did originally exist were fragile and ephemeral. This combined disastrously with the well-known disorder and lawlessness in the late 90s. “The weakness of the state and of society were two sides of the same coin” (Granville and Oppenheimer 2001). Instead of turning to each other to solve disorder, people turned to new elites for order. The system that has evolved is somewhere in-between a first-level natural state and open-access society.

Unsurprisingly, the most accurate parallel is to Russia itself centuries ago. While technology and the surrounding context has changed, the basic institutional structure of authoritarianism, illiberalism (or dominance of the ancients’ interpretation of liberalism), and a personal state unbound by rule of law remains strong. There are shadows of open-access organizations, but these exist in an ill-defined system of law and personal relations. Precisely as elite wish it to be. This helps to explain why levels of institutional trust are extremely low and that two of the most trusted institutions are the church and president (Stickley et al. 2009). Russia remains a system of collective action by personal relationship and coercion rather than best interest. The result is a set of institutions able to borrow some efficiency from the outside world while also maintaining exploitive elite.
VI. Conclusion

“The persistence of royal absolutism or more generally of a preindustrial bureaucratic rule into modern times has created conditions unfavorable to democracy of the Western variety.”


The Kremlin, from its external projections of imperial force in Georgia and Ukraine to its decentralization into regional absolutists loyal to Putin, is a reflection of its institutional past. While inferior to the efficient, profit-seeking open-access societies of the West, the Muscovite model has proved to be significantly more durable and sophisticated than expected. From 1440 to the present, regimes that may appear to be different on the surface are in fact strikingly similar to the original model.

Centuries ago, Muscovy emerged as an unlikely winner between principalities in the wake of Mongol control thanks to the political shrewdness of its rulers. The fledgling state thrived under institutions created in the dualism of Orthodoxy and its relationship to the Tartars. This paper identified several key aspects of the institutional system and the forces behind its emergence. One is Russia’s unique geographical setting in terms of both weather and security, which led to early adoption of communal social organization. As is consistent with Haber (2012), such social organization is not easily amenable to open and inclusive society. Rather, it is susceptible to a centralized formation of extractive institutions. This deep historical legacy was reinforced and adapted at several key moments in history, such as during the rise of the Bolsheviks, and continues to play a major role today in rejecting the Western conception of liberalism.

Additionally, the unifying influence and powerful secular institutional system the Mongol brought by force set Russia down a much different path from fragmented Europe. Rent extracting institutions and local autocracy came into its own under this system and helped fuel
the powerful Russian Empire long after the Golden Horde had vanished from the steppe. At the turn of the industrial age, however, this system struggled to adapt and eventually collapsed. The Soviet Elite that arose in its place took hold of similar extractive and authoritarian institutions. Their slight modifications to economic institutions allowed for adoption of some capitalist efficiency, but did not result in real transition because they were offset by an even more intensely personal state in political life. Finally, conflict, divergence of Orthodoxy from the rest of Christendom, and concentrated propaganda evolved over a significant amount of time into a powerful concept of Russian nationalism and rejection of influences deemed foreign rather than Russian.

This paper hopes to serve in the first place as a model for similar analysis of countries that often confound Western academics. In the second place, it raises broader policy implications. Policymakers ought to be wary of failing to comprehend the institutional legacies of a country they might seek to influence because the everyday social dynamics of that country will naturally be tied up in its past. For Russia specifically, whose entire concept of reality is based on longevity — on rejecting and outlasting opponents — half-hearted external efforts to force change can only be expected to strengthen the Muscovite narrative.
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