THE ATTRACTION OF EXTRACTION

Fundamental Institutions of Long-Term Russian Development Strategy

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End of the Road

• Russia’s growth model is exhausted
  – Resource curse
  – Get off the oil needle
  – Need for diversification

• Putin at the Mining Institute (end 1990s)
  – Yeltsin’s predatory capitalism
  – Resource rents must support other sectors
  – State and market together ... national champions

• Free markets
  – Robbins: “Deregulation unrestrained by suitable institutions...
  – ... guarantee of nothing but chaos.”
  – Putin more in tune with Russian tradition ... “shock therapy”
Historical Legacy

- **Very long tradition** ...
  - Resource extraction before the oil curse
  - Institutional development, from commerce to control
  - Fundamental beliefs and expectations

- **Treasure of the Land of Darkness**
  - Wax, furs, honey (and slaves) to Constantinople
  - Protection racket, collection point in Kiev
  - Commercial wealth, no serfdom, destroyed by Mongols

- **Novgorod**
  - Hanseatic trading league, wax, furs, honey ...
  - Commerce, institutions ... property even for women
  - Destroyed by Moscow, deportations
Survival for the Weak

• A Muscovite dilemma
  – Tough neighborhood ... hostile nomads
  – Weak resources ... cold, dark, barren
  – Should have vanished ... like so many others

• Autocracy
  – Command and control
  – Pool resources for common purpose
  – No property, no bargaining

• Rational solution
  – Survival against odds
  – Empire and global superpower
  – Legacy, path dependence
Norm Formation

- Property rights transformed (15th – 16th cent)
  - Votchina ... hereditary property
  - Pomestie ... conditional property
- Military garrisons
  - Muscovite princes short of resources
  - Boyars given land for service, service nobility
  - Destruction of Novgorod ... real watershed
- Kormlenie – “feeding”
  - Officials feed off the peasants (*kormitsya ot del*)
  - Rotation of juiciest posts, influence games (*kormlenshchiki*)
- Voluntary slavery
  - Koutou ... Chelobitie (*Ya, Ivashka, kholop tvoi*)
  - Rude and Barbarous Kingdom
Pattern Recognition

- Authoritarian rulers
  - Ivan the Terrible
  - Peter the Great, Joseph Stalin
  - Vladimir Putin

- Command economy
  - Peter the Great, mobilization for total war
  - Recruits, lifetime service (adapted Swedish model)
  - Petersburg, boyars, serfs in chain gangs

- Extraction for defense (not only USSR)
  - Power vertical, structural militarization
  - Service, kormlenie, influence games
  - Closed borders, projection of enemies
Pattern Reproduction

• **Swings of the pendulum**
  – Reform to reaction, and back ...
  – Markets to centralization, ....
  – Open borders to autarchy, ....

• **The attraction of extraction**
  – Underperformance prompts liberal reform
  – Outside pressure prompts reaction ... home to mama
  – Unity of command, pooling resources

• **Fundamental institutions**
  – Unaccountable government
  – Conditional property rights
  – Service nobility, kormlenie
Modernization

• Context changes
  – Townscape
  – Technology, communications
  – Opening borders, expanding markets

• Rules are adapted
  – Contracts, markets
  – Enforcement, agencies, professions
  – Growth of “transaction sector”

• Norms are resilient
  – Hierarchy: values, beliefs, expectations
  – Enforcement: moral vs. social norms (shaming, esteem)
  – Norms provide legitimacy for the rules
Market Society

- Hirschman, rival views
  - Multiple acts of buying and selling
  - Social ties of trust, friendliness, sociability
  - Integrative effect of markets ... embeddedness
- The transaction space
  - A dense maze of informal norms ... 
  - Formed based on experience (history matters)
  - Rule changes, incentive to chart new course
- Times of dislocation
  - Rules break down, and enforcement
  - Informal norms activated
  - Trust, protection ... memories
Institutions Matter

- **Inherent contradiction**
  - Formal rules matter – trivially true
  - Informal norms matter – history/culture matters
  - Transition – all countries are the same

- **Core of the problem**
  - Why/when do actors not violate contracts, property rights?
  - Rules to be followed, bent or avoided
  - Rule change a decision point, max utility or profit

- **Policy challenge**
  - Create rules that lack legitimacy?
  - Create accountable government, constitutional binding?
  - Norms change based on experience, re-evaluation
Outlook

• Past century
  – Tremendous change in context
  – Transformations of formal rules
  – Norms remain resilient ...

• Policy reach
  – Activate traditional values (conservative)
  – Promote value change (progressive?)
  – Proceed via social norms (social rewards/penalties)

• “Mental redescription”
  – Internalize a new set of norms
  – Values, beliefs, expectations ...
  – Steady stream of supporting evidence ...
  – … or revert to familiar old patterns