Foreword

This splendid tome deploys the cutting-edge scholarship of transaction cost economics, Austrian economics, law and economics, and public choice to offer profound insights into the evolving nature of markets and hierarchies in Russia over a period of more than one thousand years, from the early Russian Tsars, through the grim era of communism, through the short period of nascent democracy, into the current oligarchy, completely dominated by the ex-KGB agent, one-time President, now Prime Minister, Vladimir Putin. Written by a Russian émigré to the United States, fluent in both languages, the book draws deeply on relevant sources in a way that less-gifted linguists simply cannot achieve.

By probing deeply into Russia’s past, Dr Brancato demonstrates that market process has never thrived in Russia, has no firm roots, and, even now, is evaded and avoided wherever possible by individuals and households that negotiate and trade through social networks (hierarchies in the sense of Oliver Williamson) rather than through anonymous market exchange. Dr Brancato identifies the weakness of such strong ties in narrowing opportunities for entrepreneurship and innovation, and in widening the reach of bureaucracy and resistance to change.

Notions advanced by Ronald Coase and others that individuals systematically seek out gains from trade by striking deals with each other (the Coase Theorem) are dominated in Russia by notions that individuals reject market exchange because of a systemic fear that unforeseen events will render them susceptible to exploitation (the Machiavelli Theorem). Dr Brancato demonstrates compellingly that the institutional history of Russia lends itself to this deeply embedded prejudice. In a country that has never enjoyed the rule of law, where the courts have never displayed independence from the will of those who rule, individuals are subjects, not citizens, and depend for protection, ultimately, on access to individuals who stand above them in the economic hierarchy, not on the primacy of the laws of property and contract.

At a time when Russia is regressing from democracy to Tsardom, is retreating from the modern to the medieval age, from rationality to mysticism, this book is timely indeed. It brings to the Western reader an understanding of the particular culture of a still-isolated Eastern people, protected from globalization by plentiful fossil fuel resources (the winners’
Foreword

curse) and by a long-standing tolerance for self-imposed relative poverty. As long as his government does not impede his flow of cheap vodka, and provides him with protection against anarchy, the stoic Russian male accepts the Hobbesian order, and turns away from the Sirens of Lockeian liberty. Whether the new Russian woman (think Lara in Doctor Zhivago) shares this docility is a matter yet to be resolved. Resolving that issue will be central to the future of the Russian people in the modern world.

Dr Brancato, who staunchly believes in individual liberty, has lived sufficiently long in Russia to understand and sympathize with her Hobbesian compatriots, even as she rejects their excessive acceptance of authority and their over-indulgence in hierarchical networks. This book is a masterpiece that could be written only by such an outstanding example of the new Russian woman: an exceptional scholar who is not betrayed by her past, nor seduced by unrealistic expectations of her promising future in the New World.

This book will help to loosen excessively strong ties in Russia and to reawaken the West to the benefits of market exchange at a time of perceived crisis in the viability of capitalism; demonstrably the greatest instrument for wealth creation available to mankind. Read and enjoy the rich feast that Dr Brancato places before you.

Charles K. Rowley
Duncan Black Professor of Economics
George Mason University
and General Director
The Locke Institute, USA