

BOOK REVIEW

The Siberian Curse: How Communist Planners Left Russia Out in the Cold by Fiona Hill and Clifford G. Gaddy, Washington, D.C., Brookings Institute Press, 2003, xxii + 303 pp.

Space, area, and distance are important factors for explaining the engines and the diversity of economic growth. This new book is a study examining the peculiarities of regional economic development that took place under Soviet-era socialist industrialization, its main focus being on the geographical aspects of a transitional economy.

Chapter 1, "The Great Errors," sets forth the central issues of this book. The planned economy that operated in Soviet Russia brought on the misallocation of resources (p. 3), and this had an important impact on population distribution and the pattern of urbanization. Chapter 2, "Size Matters," compares the geographical distribution of Russia's population with that of other countries. It compares the distribution of Russia's urban population with the pattern of Zipf's Law, a mathematical law for the distribution of cities according to their size (p. 19), and this comparison shows that the size of Russia's second-tier cities is small (pp. 19–22).

Chapter 3, "The Cost of the Cold," evaluates the social cost of Russia's distorted population distribution. It does this by measuring the total "person-degrees" divided by total population. This measure is called the "temperature per capita" (TPC) index, and it is calculated by multiplying the size of the population of an area by that area's average January temperature, then dividing this total by the size of the total national population (pp. 217–20, appendix B). From this index it can be seen that in 1926, right before the start of economic planning, Russia already had a greater concentration of population in cold regions than did the United States, Sweden, or Canada, market-economy countries with natural conditions like those of Russia. From 1926 until the 1980s, Russia's TPC continued to fall. Cities that grew during the time of Soviet economic planning were in extremely cold places, and this contributed to the decline of the TPC. This shows that Russia moved population to areas that were much colder than would be expected under the laws of economics. This economic cost, according to this very interesting study, underlies the economic problems plaguing Russia today.

Chapter 4, "Geography Is Not Destiny," analyzes how distance and cold as impediments of Russia's development have arisen from the country's territorial expansion and policy of promoting geographical development that goes back to before the revolution. Chapter 5, "Siberia—Plenty of Room for Error," examines historically the industrialization of an economy that was based on land-intensive agriculture, and the cost that Russia paid in this process for relying on a centrally planned economy rather than on a market economy. For close to seventy years Russia used centralized economic planning to move people to Siberia which was "vast and rich in resources but hard to live in because of the cold." Central

planning was not carried out for the welfare of the people or the economic development of the country. It was done to control territory and the population, and coercive methods were employed to move people and procure labor manpower. By the 1970s and 1980s, however, even Soviet planners had come to recognize the cost of controlling population distribution and resource allocation.

Chapter 6, "Disconnected Russia," examines the politico-economic consequences of Russia's distorted population distribution. This distortion was brought about through the use of extremely costly incentives, and the employment of a forced labor system by prisoners known as GULAG after the acronym of the department within the Soviet internal affairs ministry that was charged with running the ministry's system of labor camps. Because of this distortion, the urban infrastructure that was built up became sunk cost, and this has made it difficult to build a normal market economy. Moreover, in order to bring about this distorted population distribution, the central government had to have control over the people living in remote areas. As a result, Russia's cities became the administrative tools for controlling the people and for mediating interconnections between the state and the population in regional areas (p. 105).

Chapter 7, "Taking Stock: How Much Has Changed?" looks at the change of policy on population distribution since the collapse of the Soviet Union. Contrary to the opinion of most, the authors of this study argue that a policy to promote the redistribution of population will not achieve significant results. Even with the existence of the Internet and other new communication technologies, the authors argue that physical connections between people are needed in order to improve the quality of life; besides, there are limits to policy. Chapter 8, "Can Russia Shrink?" examines the impediments making it hard for Russia to undertake the large-scale movement of population that it needs. These include restrictions on settlement in Moscow; the absence of significant economic growth, new jobs and housing in other towns and cities; inadequate social safety nets; people's own reluctance or inability to move; the lure of subsidies to live in specific regions (p. 140). The authors show that there have never been any examples historically of large-scale cities voluntarily reducing their size, and for Russia, too, the redistribution of population will be a difficult task.

Chapter 9, "Russia of the Mind," examines the thoughts and ideas that have been behind Russia's economic policy. According to the authors, Russia invested an excessive amount of effort and population into developing Siberia, and this has left it as a giant country handicapped by too large a size and too much cold. Behind this problem has been the mistaken thinking, the wrong mentality (p. 186), that without its population being distributed throughout the whole of its landmass, Russia would not be able to insure its national security. However, Russia has to alter its mindset, the authors argue, and move away from its fixation on territory and resources to a mentality that puts importance on people, on Russia's human capital (p. 187). In the authors' opinion, for Russia to become competitive and achieve sustained economic growth, it is not so much a matter of reducing the country's geographic space as it is of shrinking its economic space; and to do this, the authors say that Russia needs to encourage its population to move and concentrate in areas where the environment is more conducive for living. In other words, for Russia to improve the quality of its population, it has to raise the level of productivity in its remote areas. Chapter 10, "Tearing Down Potemkin Russia," brings together the conclusions and observations of this study, stressing again the

legacy of distance and cold that Russia has inherited from the past. The authors do not deny that the government has a role to play, but what is needed, they say, is an interventionist approach by the state that is closer to the optimum than it has been historically (p. 211).

This book is a fascinating study that brings together historical analysis with statistical measurements, and points out the path-dependence¹ of transitional economies and regional economic development. The study employs the tools of economic statistics and economic geography as well as historical analysis that look back over several centuries, and it shows how Russia's geographic size, which seemingly should enhance its superiority, has actually been a weakness. An important concept in this work is "connectedness" (pp. 23–24). This concept is also used in the World Bank's *World Development Report 2003 (WDR2003)* where it is referred to as "connectivity."² The *WDR2003* states that an increase in urban population density creates conditions that enhance the formation of economic markets and raise economic returns. The *WDR2003* also maintains that countries too dependent on natural resources for their economic development have failed to sustain economic growth or have experienced violent conflicts. The report presents a list of countries that have not been able to sustain economic growth in that the level of their 1999 GDP per capita was the same as that a decade earlier.³ The majority of these countries are point-source economies, meaning that their two most important exports are fuels, minerals, or plantation crops. The majority of the countries with point-source natural resources also suffered violent conflicts in the 1990s. This overreliance on natural resources noted in the *WDR2003* is a point in common with this study on Russia in that this country too has overly emphasized the utilization of strategic resources. This new study will also be important in offering suggestions for researchers working on regional policy in countries like China or India⁴ which have had a history of planned economies.

While finding much to praise about this new book, there are several comments I would like to make. The first relates to implications of the concept of connectivity for regional policies in developing (or transitional) countries. During the development phase of increasing regional inequality and population agglomeration, developing countries tend to utilize policies for reducing regional disparities and promoting development in the least developed regions. One example is China where the government since the 1990s has attempted to promote the development of the central and western regions.⁵ However, in the case of regional development policies, the policy agency tends to focus solely on income level or the industrial and employment structure of the respective regions (or cities). If we take seri-

¹ Douglass C. North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990), pp. 93–94.

² World Bank, *World Development Report 2003: Sustainable Development in a Dynamic World—Transforming Institutions, Growth, and, Quality of Life* (Washington, D.C.: World Bank; New York: Oxford University Press, 2003), pp. 6–7.

³ World Bank, *World Development Report 2003*, p. 149, figure 7.2.

⁴ Hiroshi Satō, *Uneasy Federation: The Political Economy of Central Budgetary Transfers in South Asia* (Tokyo: Institute of Developing Economies, 1994).

⁵ See Yasuo Ōnishi, ed., *Chūgoku no Seibu-Daikaiatsu: Nairiku hatten senryaku no yukue* [Development policies of western regions in China: The future of development policies of Inland Regions], IDE Topic Report no. 42 (Chiba: Institute of Developing Economies, Japan External Trade Organization, 2001).

ously the arguments of the book, one has to pay more attention to connectivity between cities, as well as connectivity between underdeveloped and developed regions. This fact suggests that policies for promotion of underdeveloped regions have to be supported by a comprehensive framework for national economic development. As the analysis in this book points out, economic development with agglomeration in cities requires a system which is organized through connected cities and regions. Regional development supported by immobile or fixed resources and economies of scale tends to become dependent on specialization in only a few industries. For example, as explained in p. 12 of the book, in the United State in the period from 1860 to 1914, the development of railroads lowered transportation costs and large-scale production processes, combined with relatively immobile energy sources allowed regions to begin to specialize. This process of regional specialization tends to reach a peak due to the development of mobile factors of production and new technology.

On the other hand, if we focus on regional development through economies of scope or reduction of transaction costs, policy design has to pay more attention to the agglomeration of diverse industries, and the development policies for the respective regions must be supported by designing a connected city system at the national level. If Russia pursues development through population agglomeration in European Russia, it will have to formulate a policy that can link the benefits of agglomeration in European Russia with the sustainable development of other regions. The policy may include the redistribution of income among the regions. If Russia can successfully carry out such kind of regional development policy, its example would have great implications for regional policies in developing countries. For the analysis presented in this book to be relevant for regional development policies in developing and transitional economies in general, the historical and geographical materials in the book need to be analyzed theoretically with factors such as economies of scope or transaction costs.

My second concerns the reasons why human resources have always been undervalued in Russia (pp. 94–99). Nowhere in this book does the analysis provide an explanation for the regional differences in the quality of life in Russia. The *Human Development Report 2003* by the United Nations Development Programme (UNDP) contains a Human Development Index (HDI) for the different regions of Russia.⁶ The report states that there are great differences among the regions in the level of human development, and the HDI for Siberia and the Russian Far East are low. If the government during the Soviet era had correctly understood the importance of technology, skills, and organization, the government would have paid more attention to promoting human resources as the basis for technology, skills, and organization. This correct economic thinking would have avoided the failures in regional resource allocation which became and continue to be heavily oriented toward the exploitation of strategic natural resources. This reviewer thinks that the urgent need to control the economy during the period of the Revolution, Civil War, and the Second World War (pp. 107–8) and severe external conditions that Soviet Russia faced made it impossible to adopt a rational arrangement for developing the economy.

My third comment is on the need for more concrete and positive recommendations for promoting self-governance and a stable fiscal base for respective cities and regions. Politi-

⁶ United Nations Development Programme, *Human Development Report 2003* (New York: Oxford University Press, 2003), p. 65, map 5.

cal leaders tend to pay more attention to immobile population than to mobile population. There are regional disparities in administrative capacity, and the low quality of staff in local governments can be a disadvantage to spontaneous regional development.⁷ Ordered restructuring, protecting the quality of life in underdeveloped regions, and sharing the benefits of agglomeration enjoyed by the advanced cities at the national level requires effective cooperation between the central and local governments. The historical and geographical analysis in this book has to be connected with the theoretical investigation of regional development planning.

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⁷ Pranab Bardhan, "Decentralization of Governance and Development," *Journal of Economic Perspectives* 16, no. 4 (Fall 2002), pp. 189–90.