

## Federalism at Bay: Putin's Political Reforms and Federal-Regional Relations in Russia

Duckjoon Chang  
(Kookmin University)

### I. Introduction

Charles Montesquieu long time ago contended that there are only two ways of preserving unity in large countries: tyranny or federation (Montesquieu 1999, 113-116). Interestingly, his observation seems to be applicable to the case of Post-Soviet Russia as well. After ten-year experimentation of federalization, Russia ended up with concentrating state power in the hands of the central government. Moreover, the Putin regime obviously took the option of heading toward an authoritarian rule, if not tyranny, constraining the freedom and autonomy in the various sectors of society.<sup>1</sup> Moscow's repression and persecution of ethnic minorities and separatist groups like the Chechens coupled with a tight control over local bosses, the mass media, and the business sector aroused serious concerns over the rise of authoritarianism or so-called "illiberal democracy."<sup>2</sup>

Particularly, many observers from inside and outside of Russia express grave concerns about the Kremlin's attempt at tight grip on various state organs including regional and local government under the slogan of '*verticalization* of state power'. Some commentators refer to the current state of affairs in the arena of the center-region relations as the process of de-federalization. Others present dismal prospects that

---

<sup>1</sup> Aware of growing criticisms on his policies, Putin in his annual state of the nation address, delivered on April 25, 2005, sent an assuaging signal to the business sector by promising that there won't be unfair state meddling with the business sector including abuses by the tax police. Yet, in the same address Putin made clear that "illegal" anti-government protests taking advantage of the recent civil revolutions in the CIS region will be simply cracked down on, while giving the audience some lip-service on democracy and rule of the law (*Novye izvestiya*, 26/04/2005).

<sup>2</sup> "Illiberal democracy" is referred to as political regime in which free elections coexist with severe human rights abuses and limited freedom of the press (Zakaria 2003).

Putin's current centralization drive and authoritarian posture relying on a narrow supporting group of loyal bureaucrats and politicians will make his own regime counter-productive and even vulnerable.

Given the ongoing potential and actual upheavals in the arena of the center-periphery relations in Russia, this paper is designed to assess the characteristics of federalism in Russia. To this end, I will analyze and evaluate the Kremlin's federative reforms, its policies toward regional and local governments, and consequent center-periphery relations during recent several years by taking into account the functions and goals of federalism per se. In so doing, first of all, I will delineate the rationales of federalism derived from the existing literature on federalism. Then, I will go over the developments in the center-region relations since the early 1990s. Particularly, I will shed light on Putin's centralization drive and political reforms related to the overhauling of the existing federative relations. After that, I will try to assess the changes in the center-periphery relations under Putin by utilizing the rationales of federalism discussed in section II as a benchmark. And, I will address some possible political and economic ramifications of Putin's centralization policy or the '*verticalization* of state power.'

## II. Rationales of Federalism

Nowadays decentralization and local autonomy is universally praised on the ground that such a vertical delineation of state power is a quintessential ingredient for modern democracy. From this point of view, federalism is regarded as an effective institutional design for distribution of state power in the spatial dimension. Yet, such a universal agreement on the value of decentralization notwithstanding, a wide range of varieties lie in the backgrounds for introducing a federal system and the manners in which a federal system operates. In addition to different backdrops against which federal systems originate and evolve, federalism also shows a great variety of forms in terms of constitutional prescription and its actual practice (Brinkman & Bovt 1994, 137). While federalism has different origins and a wide variety of concrete institutional arrangements, we can sort out several theoretical and practical reasons justifying constructing and maintaining a federative structure in a given society.

## 2.1. Institutional Mechanism for Autonomy and Balance

Since the 19th century many thinkers and theorists of plural democracy including Bentham, J. S. Mill, and Tocqueville pointed out the problems of the strong, centralized, state and stressed the necessity of self-government based on vertical decentralization of the state power. Pluralist theorists maintain that local autonomy and self-government not only serve as a political unit enabling people to realize their own freedom, but also constitute an arena for political education (Hill 1974, 26). Thus, local government and decentralization, conducive to the breeding of 'grass-root democracy,' is an essential foundation of modern democracy. The pluralists tend to identify decentralization with local self-government because local self-government is believed to be an ideal mechanism for political freedom, distributive efficiency, and political education. In addition, local self-government is considered to generate the local authorities that are internally democratic. That is, local governments may contribute to democracy at the national level by enhancing diversity in values and encouraging distinct local interests to counter central control (Chandler & Clark 1995, 772).

A federative system is designed to secure the autonomy of local governments within institutional framework. That is, federalism determines the functioning of the mechanism of political freedom and autonomy at all levels of governments, delineating areas and scopes of competences and powers among various levels of state authorities. Federalism makes it possible for each of subnational units to represent its own unique characteristics and to claim its political niche in the national political arena regardless of each region's economic, demographic, or territorial standings. From this point of view, decentralization of state power is a necessary precondition for federal relations (Avtonomiv 2003). In a similar vein, the measure of political integration under a genuine federalism is not the strength of the center as opposed to the provinces, but the strength of the framework by which competences of each level of government are distributed and coordinated harmoniously on the basis of clear and just rules and laws (Elazar 1987, 12-14). The federal system testifies to this point in that most of federal states adopt bicameral parliaments in which the upper chamber (senate) usually represents regional interests on an equal basis, whereas the lower chamber tends to directly represent population from each electoral district.<sup>3</sup> And some state functions and

---

<sup>3</sup> William Riker refers to this variant of federalism as 'demos-constraining' federalism in the sense that a federal system may prevent the majorities, or big and rich provinces, from dominating the minorities, or small and poor ones, by poising the upper chamber counterbalanced against the popularly representing

decision-making competences are constitutionally authorized solely for regions. By so doing, federalism may curtail possible negative ramifications of the majority rule, serving as a foundation for self-rule and local autonomy.

## 2.2. Bulwark for Stability in a Multi-ethnic Society

Many multi-ethnic states with minority ethnicities are destined to face the thorny question of how to deal with the ethnic minorities and/or culturally distinct regions and their demands for self-determination and sometimes further outright independence (Encarnacion 2004, 59). In this case federalization of the state power constitutes an effective solution. Of course, there are disputes over whether the installation of federalism following the introduction of political liberalization and democracy in the multiethnic society serves either to exacerbate or to contain political conflicts and centrifugal tendencies among various ethnic minorities (Bermeo 2002).

On the one hand, possibilities of political conflicts and disruptions are innately embedded in the federal structure composed of territorial delineations in the line of ethnic differences. Particularly, if the federal structure was forced to be constructed from above, or the central government, regardless of institutional arrangements for power-sharing between the center and federal subjects, imposes its dictatorial power on the federal subjects, there may exist high possibility that a small issue of political conflict or political liberalization may develop into movements of political independence and secession from the federation. An excellent example can be derived from the Soviet case. While having brought various ethnic groups into the scheme of the federal system from above, the Soviet Union's nationality policy allowed the constituent republics to recruit its own indigenous people for important party and governmental posts. As a result, in each of the Union republics national identities were entrenched and consolidated, which triggered the breakaway movement in the late 1980s (Leff 1999, 210). When political liberalization was set in motion with the progress of perestroika, the Soviet federal structure provided republic-level political bases for challenges to the existing political order and offered distinctive opportunities to key actors in the transition. Many political commentators point out that if federalism imposed from above by force is combined with liberalization, as were the

---

lower chamber (Riker 1975). This idea is predicated on the assumption that besides majority rule the 'demos-constraining' upper chamber may serve as institutional gatekeeper for maintaining a minimal level of harmonious and even development among subnational political units.

cases of the Soviet Union and Yugoslavia, it is likely to be a source of rather than a solution to political conflicts and disruptions (Bermeo 2002; Bunce 1999).

On the other hand, ethnic communities tend to claim their rights to self-determination and their sovereignty thereof. Therefore, in a multi-ethnic state, it behooves the central government to satisfy—at least partly—the ethnic minorities' claim their rights to self-determination and sovereignty for the purpose of maintaining political stability and the integration of the nation. To this end, a federal system can be constructed. In this sense, since a federal system based on multi-ethnicities is predicated on a social contract among different ethnic groups, the central government, strictly speaking, is characterized by a 'limited sovereignty.' In this way, federalism may serve as an institutional device that is conducive to political stability by allowing various ethnic groups to air their own voice and to enjoy their autonomy.

Aside from the cases of multi-ethnic federal structure with communist rule, the federal structure in a multi-ethnic society may be instrumental in managing and absorbing sources of political conflicts among different ethnic groups, however. In contrast to cases of the Soviet Union, Yugoslavia, and Czechoslovakia, some newly democratized societies such as Spain as well as enduring democracies including Belgium and Switzerland are examples of federalism based on negotiations among different ethnic groups. In these countries, federalist structure not only serves as a solution to the dilemmas posed by ethnic-based territorial cleavages, but also contributed to the strengthening of democracy and internal unity. During the 1990s federalism in Russia, which allowed for asymmetric characteristics by granting republics with titular ethnic groups more political and economic privileges than other categories of federal subjects, was also considered as an effective instrument for formulating and reproducing multi-ethnic Russian society and its political and economic structure (Lyubintsev 1995; Topornin 2001, 68).

### 2.3. Institutional Device for Common Political and Economic Goals

In addition to the consideration of decentralization of state power and local autonomy, a federal system, like that of the United States, tends to be driven by the political needs such as political integration and national security as well. Recently, the emergence of the European Union and further discussions about the developing the former into a more unified and cohesive political entity, the United States of Europe, are also the case. That is, in search of a large republic, subnational political units (or federal subjects)

come together and create a federal structure that is powerful enough to defend themselves from external threats (Riker 1964, 16-25). In addition, this case can be found when a federal system is crafted in the pursuit of a larger political entity on a voluntary basis among existing political units for the purpose of enhancing its own political influence in the international arena.

On the economic side, federalism is not only an effective state system in which sufficiently large and well-coordinated economic space may take shape, but also an institutional device for increasing economic efficiency. Elazar contends that federal schemes, particularly confederacies, may sustain common markets fostering common economic interests among the components of federation. Like the EU, an integrated economy based on the free flow of goods and services across borders of member states or federal units coupled with common fiscal and macroeconomic policy may stimulate economic growth and mutual prosperity (Viner 1950). By so doing, a larger, unified, political unit may enhance its economic competitiveness vis-à-vis other countries or economic blocs. Also, federalism, which is designed to decentralize state power, tends to increase efficiency in the public arena and to strengthen the competitiveness of private business by dint of decentralization and deregulation (Polishchuk 1998).

Besides, federal arrangements in the budget arena are expected to spread economic development and benefits. Particularly, in developing countries, a unitary system tends to exacerbate the economic disparities between the rich metropolitan area and poor, underdeveloped, peripheries (Elazar 1987, 252). Thus, a federal system may create a number of centers, which may prevent economic resources from being unduly concentrated in a single center. That is, a federal system may contribute to reducing disparities in the standard of living and development among regions. On the basis of fiscal arrangements such as subventions, credits, and subsidies for regional and local budgets, a federal system serves as a moderating mechanism for even and balanced development. However, even in this case autonomy and discretion of federal subjects should be maintained. That is, in a federative state, each level of the government must have genuine powers to generate and dispose its own revenues.

### III. Federal-Regional Relations during the 1990s

During the perestroika era in his rivalry with Mikhail Gorbachev, Boris Yeltsin made a coalition with regional leaders. However, this political tactics in return had a

boomerang effect in terms of center-periphery relations in Post-Soviet Russia. In non-Russian ethnic autonomous republics and even in the ethnic Russian regions the centrifugal tendencies were set in motion. For instance, Sverdlovsk Oblast under Eduard Rossel declared itself as “the Ural Republic,” claiming to the same status as non-Russian autonomous republics. Even below the regional level, some districts, in search of their own independent economic activities made attempts to control the movement of economic resources across their jurisdictions (Hahn 2003, 346). Faced with such tremendous breakaway tendencies, Boris Yeltsin proposed a federation treaty in an attempt to hold Russia together. Because of his *ad hoc* treatment with regional leaders, largely based on political convenience, Yeltsin had no choice but to allow for asymmetric relations among subnational units. For the purpose of containing centrifugal tendencies among regions and republics, and keeping Russia’s territorial integrity intact, he needed to make more concessions to republics dominated by titular ethnic groups. Thus, by early 1992, Moscow’s central government launched a series of negotiations with its federal subjects, except for Chechnya, resulting in asymmetric relations and segmented regionalism among the regions. The Federal Treaty as such was signed on March 31, 1992. According to the treaty, all units—republics, administrative territorial areas, and national areas—had equal rights and obligations. However, republics were allowed to have their own sovereignty-like rights and institutional arrangements, such as constitutions, laws, legislative bodies, supreme courts, and even presidents. The treaty considered every subject of the Federation equal in a juridical sense. Yet, republics were granted more political and economic powers than the rest of the federal subjects.<sup>4</sup>

As such, the federative relations in Russia came to be tainted with asymmetric characteristics. Such uneven relations among federal subjects in Russian federalism are embedded in the 1993 Constitution as well. While not explicitly referring to republics as ‘sovereign states’ in the new text and claiming that all federal components are equal (Article 5.1), the Constitution implicitly grants republics more prerogatives than regions. The republics, for instance, are allowed to have their own constitutions, governments, parliaments, presidents and other institutional rights tantamount to the

---

<sup>4</sup> According to Article III of the Treaty, republics have prerogatives to co-determine with Moscow the issues concerning the proprietorship, utilization rights, and disposal rights of land, mineral resources, and other natural resources including water within their own jurisdictions. In fact, by 1992 when the Federal Treaty was signed, the leaders of some federal subjects, including Bashkortostan, Tatarstan, and Sakha, published a statement saying that republics rather than Moscow should have priority in accessing and controlling economic resources located in their own territories (*Izvestiya*, August 14, 1992; *Nezavisimaya gazeta*, August 15, 1992).

status of a sovereign state, whereas the regions are granted the right to introduce their own charters (*ustav*). In contrast to the republics, who are allowed for the joint jurisdiction over natural resources, the rights of the rest of the federal subjects appear quite limited, “sharing certain listed powers and enjoying other unspecified prerogatives not conflicting with the national state” (Article 76.6). The new Constitution of 1993, however, became a source of conflict and *ac hoc* bargaining between Moscow and federal subjects without clearly delimiting powers and jurisdictions over taxation and economic resources in each federal subject. That is, fiscal and other economic resources were to be determined by a tug-of-war between the center and the provinces and considered as an object of bargaining. This situation was partly a result from Yeltsin’s political expediency and his strategy to muster political support from regional and republican leaders in order to win out the challenge from the Parliament at the early stage of his reform. In the wake of the introduction of the Constitution, Yeltsin concluded a series of bilateral treaties with the recalcitrant, independent republics in order to stabilize the center-periphery relationship and the federal system.

In February 1994, Tatarstan became the first federal subject who signed a bilateral federal-regional treaty with Moscow on sharing competencies and powers. Since then, the Kremlin has signed bilateral treaties with 45 more subjects until the federal government signed with Moscow City a bilateral treaty on June 16, 1996. It is believed that such politicized bilateral treaties resulted in “asymmetrical” relations among federal subjects by granting more political, administrative, and financial prerogatives to republics rather than to general administrative federal units such as krai and oblast.<sup>5</sup> Under the official asymmetric structure based on extensive prerogatives enjoyed by republics and some of the regions, regional leaders became enabled to exert influence over their jurisdictions. They were able, for instance, to strengthen their own power over economic resources, including natural resources as well as institutional capabilities. On the basis of such an elevated status and favorable position, regional leaders managed to place many executive functions of federal organs, located in their regions, at their own disposal. Police, tax collectors, judges, and other federal officials—even military personnel in the regions—increasingly came under the influence of the regional governments (Herd 1999, 2).

Meanwhile, the federal government’s fiscal policies to a considerable extent were also devised and implemented on a *ad hoc* basis through bargaining between the Kremlin

---

<sup>5</sup> Thus, those less privileged federal subjects aired dissatisfaction. Furthermore, some of them even attempted to establish inter-regional associations such as “Siberian Agreement,” so as to secure a stronger position vis-à-vis Moscow (DeBardeleben 1997, 48-50).

and individual federal subjects. Since republics dominated by certain titular ethnic groups tend to enjoy far more favors and benefits than other categories of federal subjects, there existed a wide range of differences in the arena of budget allocation and taxation powers. There are no doubts that such differences were to a large extent driven by political considerations.<sup>6</sup> By 1994 the average ratio of federal taxes actually turned over to Moscow amounted to 40%-50%. However, as noted above, through bilateral treaties, the federal government gave far more favors to independent-minded republics in terms of fiscal policy. The federal government allowed some “troublesome” federal subjects, such as Bashkortostan, Tatarstan, and Sakha, to reduce or even to boycott the share of federal taxes to be transferred to Moscow.<sup>7</sup>

By May 1999, about one third of federal subjects received nothing from Moscow in terms of net federal subsidies. On the basis of bilateral agreements between the Kremlin and some federal subjects, the latter were allowed to remit less federal taxes collected in their own jurisdictions than other subjects. Each of the federal subjects strived to retain as much fiscal revenues as possible, while remitting as little money to Moscow as possible (Stolyarov 1999, 36-40). Such republics as Tatarstan transferred only 50 percent of the VAT levied by themselves to the federal government, while other regions sent as much as 75% of the same tax revenues to Moscow (Sakwa 2002b, 237-238).

As noted above, during Yeltsin’s presidency, Moscow’s policy toward regions unequivocally brought about strong asymmetric elements in Russian federalism. First, beginning with a bilateral treaty with Tatarstan, the Kremlin concluded a series of bilateral treaties with independent-minded republics in an effort to attain political stability by pacifying them. Second, despite its goal of equalization among federal subjects through fiscal federalism, the central government’s fiscal policies were conducive to widening the asymmetric characteristics in terms of budget allocation, revenue sharing, and federal subsidies. Given that republics dominated by certain

---

<sup>6</sup> Some scholars argue that fiscal favors in terms of federal subsidies tend to be granted to those who are not compliant to the federal government (Treisman 1996, 299-335). On the other hand, other scholars maintain that federal subsidies serve as a reward to those federal units who are supportive of the federal government (Popov 2000; DeBardleben 2003; Mitchneck, Solnick, and Stoner-Weiss 2001, 150). Still others consider the federal subsidies to federal subjects as a device for equalization of fiscal capabilities of the latter (McAuley 1997, 431-445).

<sup>7</sup> Those republics even preferred to substitute a voluntary sharing of locally raised tax for federal taxes (Slider 1994, 249). In fact, Tatarstan and Bashkortostan respectively sent only 16% and 12% of the federal tax collected on their own territories. Furthermore, Yakutsiya (Sakha) retained the whole amount of federal tax collected in its jurisdiction. In contrast, Samara Oblast, Nizhegorod Oblast, and Moscow Oblast respectively sent 45%, 48%, and 49% of the same kind of tax revenue to the federal government (Treisman 1998, 187-188).

titular ethnic groups tended to enjoy far more favors and benefits than other categories of federal subjects, there existed the possibility that a wide range of differences in the fiscal arena would stimulate discontent from ‘donor’ regions. Third, there were substantial socioeconomic differentials among regions—those between Moscow and Ingushetiya, for example—in terms of standard of living and social welfare provisions. As such, throughout the 1990s, the Russian federal system was strongly tainted with an asymmetric nature—in both official and unofficial arenas. Due to the ethno-federal characteristics, the asymmetric nature of Russian federalism seems to have been unavoidable. Furthermore, the asymmetry had been conducive to the political stability in the aftermath of the collapse of the USSR triggered by claims to ethnic identities and nationalism. Putting aside the controversies over the authoritarian rule and widespread corruptions at the regional and local levels, federal subjects enjoyed considerable degree of autonomy and regional bosses for the first time in Russian history were no longer direct representatives on behalf of the leader in the Kremlin in Moscow.

## IV. Putin’s Centralization Drive

### 4.1. Federative Reform of 2000

During the 1990s with their heightened status and influence, regional leaders not only wielded tremendous influence within their “territories,” but also attempted to put federal agencies including tax inspectorate, the privatization agencies, the police, prosecutors and even judges under their control. Against this backdrop, Vladimir Putin took office as president in May 2000. Soon after inauguration, he launched federal reform, which signaled a new stage for re-centralization. His federal reform was designed to make sure that federal laws should be appropriately implemented, to create presidential representatives in the seven newly established federal districts,<sup>8</sup> to amend the structure of the Federation Council, and to introduce the federal supervision of regional executives and parliaments.

Through these measures, the president was given the ability to restrain the hypertrophied prerogatives of republican and regional leaders in many respects. As a

---

<sup>8</sup> See Presidential Decree #849 (2000) entitled “O polnomochnom predstavitele prezidenta rossiiskoi federatsii v federal’nom okruge” (*Rossiiskaya gazeta*, <http://www.rg.ru/official/doc/ukazi/849.htm>), searched on April 3, 2004).

result of the overhauling of the Federation Council, for example, the heads of republican and regional executives were deprived of the ex officio membership of the upper chamber and the immunity privilege from criminal prosecution thereof.<sup>9</sup> Furthermore, in the summer of 2000, Putin pushed for a legislation granting the federal president the right to dismiss a regional leader if he or she seriously and consistently violates federal laws or poses a serious menace to the national economic unity. Also, the federal president may dissolve regional or local parliaments if the lower levels of authorities do not implement court order to revise regional or local laws in accordance with federal legal framework in case of any contradictions between federal laws and sub-national legal acts (Bulavinov 2004). That is, the federal president is empowered to remove regional chief executives, to disband regional legislative bodies, and to call for elections, provided that a series of court decisions and a presidential warning are made against violation of the federal Constitution and federal laws.

As such, the existing political prerogatives of governors and republican presidents to exert strong influence in their jurisdictions became substantially curtailed. These policies were apparently conducive to the re-centralization of power in the federal government and the weakening of the political influence of regional elites at the federal level. Putin's federal reform efforts were targeted toward overcoming the segmentation tendencies in the center-periphery relations and building "a stricter system of subordination of the regions to the center" (Shevtsova 2003, 91).

#### 4.2. Centralization in the Fiscal Area

The Putin government pushed for fiscal centralization in an effort to consolidate the resources of its power over federal subjects. With respect to the revenue side, the federal government attempted to render the proportions of tax collections between Moscow and regions explicitly lopsided toward the former. During the 1990s tax revenues were split roughly even (fifty-fifty) between Moscow and the regions. Yet, as indicated in <Table 1>, since 2001, despite the federal code's fifty-fifty requirement, the federal-regional revenue-sharing ratio was approximately sixty percent to forty

---

<sup>9</sup> Since 1996 regional/republican leaders and speakers of the regional/republican leaders had served as senators in the Federation Council. But, according to the new recruitment method for the senate, initiated by Putin, the governor/president appoints his senator by decree, and only a two-thirds vote in the legislature can block him. The regional/republican legislature appoints its senator by majority vote. For the detailed content of the law, see "O poryadke formirovaniya Soveta Federatsii Federalnogo Sobraniya Rossiiskoi Federatsii" (*Rossiiskaya gazeta*, August 8, 2000).

percent. According to the new Tax Code of 2001, the entire revenue from VAT should belong to the federal treasury, while regions are denied the right of retaining 15% of the VAT revenue enjoyed before. Of course, given extremely uneven tax base with economic resources concentrated in a few federal subjects, this change in the VAT collection policy is expected to give the central government more leeway to reduce differences among regions in terms of fiscal resources. However, by the same token, deprived of the incomes that they had enjoyed, the fiscal autonomy of the regions has been curtailed (Kurlyandskaya 2004, 6).

**Table 1. The Ratio of Tax Revenues Between Federal Government and Regions**

Transfer \ Year	1999	2000	2001	2002	2003
Before Transfers	<b>51:49</b>	<b>54:46</b>	<b>59:41</b>	<b>59:41</b>	<b>60:40</b>
After Transfers	<b>46:54</b>	<b>49:51</b>	<b>51:49</b>	<b>49:51</b>	<b>50:50</b>

Source: Klimanov & Lavrov (2004, 114)

Meanwhile, the personal income tax, which used to be levied on a progressive base, was revised in favor of a flat 13% tax rate. The revenues from the personal income tax, which used to be shared with Moscow under the old tax code, became only a regional budget source (Pogorletskiy & Sollner 2002, 159). The new Tax Code targeted to raise tax revenues by strengthening tax discipline through lowering tax rates and simplifying the tax system. The tax reform aimed at improving the effectiveness of fiscal federalism on the basis of a much more centralized tax system in terms of collection and redistribution of tax revenues among regions. Benefiting from the tax reform, the great majority of regions—except for Moscow—were supportive of the tax reform (*Nezavisimaya gazeta*, May 24, 2001).

Even if the federal government's share of fiscal revenues has been increasing, compared with other countries, the shares of subnational governments' fiscal revenues in Russia are not excessively low. Yet, problematic is the fact that subnational governments are denied the authority to decide whether or not taxes are levied and what kinds of taxes from whom and in what rates are to be collected (Kurlyandskaya 2004). The same is true for the case of federal transfers. Federal transfers, a major tool for

fiscal federalism, are aimed at enabling regional/local governments to provide residents with basic benefits regardless of fiscal capabilities of individual regional or local governments. However, the way in which the federal transfers are executed seems to have contributed to the strengthening of central government's leverage over the subnational governments. Among those federal transfers that are granted to the regional and local governments by the federal treasury, the portion of 'specific transfers' (специфические трансферты), which the regional and local authorities must spend on the specified areas designated by the federal government, has been substantially increased since Putin came to power. At the regional level, for instance, the portion of specific transfers in the whole federal transfers delivered to regional governments soared to 38.1% in 2003, while remaining only 2.3% in 2000. According to the law on self-government the portion of specified transfers in a given subnational government may grow up to 40% of its fiscal revenues (Chernyavskii & Vartapetov 2004, 138).

Meanwhile, the federal government made an effort to maintain a tight grip on the other side of equation—expenditures. For example, the federal government has already presented a policy proposal suggesting a legal base to control the expenditure of regional and local authorities by placing the latter's budget under the scrutiny of federal treasury (*kaznacheistvo*). The budget of regional governments from January 2005 and that of local administrations from January 2006 will be under the control of the federal treasury (*Rossiiskaya gazeta*, February 17, 2004). In other words, regional and local budgets, whose substantial portion originates from federal treasury, will be subject to monitoring by the federal government, the supplier of the fund, for the purpose of 'efficient, transparent, and fair' spending.<sup>10</sup>

For the purpose of harmonious, balanced, development, fiscal centralization should go hand in hand with the development of local autonomy. To maximize the effectiveness of budget policy and to lessen the asymmetry problem in the area of fiscal federalism, for example, the federal government should grant more autonomy in terms of expenditures to regional and local authorities in consideration of economic situation and fiscal needs, while the competences of collecting taxes and distributing the budget are concentrated in the central government. Thus, it may be argued that fiscal centralization in the hands of federal government does not necessarily conflict with local autonomy (Interview with Ilya V. Trunin of the Institute for the Economy in Transition in Moscow conducted on July 17, 2003). However, without well-designed fiscal federalism based on sufficient budget resources mounting influence of the federal

---

<sup>10</sup> The "nascent" *kaznacheistvo* was at first established in 1995 (Mitchneck et al. 2001, 145).

government over regional and local administrations may lead to aggravation of the existing differences in the socioeconomic situation among regions.

#### 4.3. Overhauling of 'Asymmetric Federalism'

Obviously, the Putin government's re-centralization campaign was primarily designed to consolidate the federal government's influence and authority. In addition, the Kremlin pushed for the readjustment of the center-periphery relations in an effort to curtail the abuse of power on the part of republican and regional leaders and to redress asymmetric relations among federal subjects.

By the time Putin came to power, there already existed a considerable degree of asymmetry among federal subjects, particularly in the sphere of legal affairs. As a matter of fact, a large number of regional and local legislations conflicted with, or were not based on federal Constitution and federal laws, resulting in legal and institutional asymmetry among regions. As of May 2000, out of 21 republics, Udmurt was the only republic whose constitution fully complied with the federal Constitution. It was reported that as many as 30 percent of local acts adopted by the republics violated federal laws and the national Constitution (Shevtsova 2003, 92).<sup>11</sup> For the purpose of enhancing the integrity of the federation and the strengthening of the central government under the slogan of 'strong Russia,' the federal authorities managed to bring these problematic legislations, including republican constitutions and regional charters, into the frame of the Federal Constitution and laws.<sup>12</sup> According to a survey conducted in 2000, a substantial portion of Russian people (45%-60%) were dissatisfied with the asymmetric situation among federal subjects. Thus, they were in favor of liquidation of the asymmetry among regions. But, interestingly, only 15%-20% of respondents considered asymmetry as one of major factors that produced a threat to the integrity of the state (Semigin 2000, 94).

---

<sup>11</sup> In 1996 Anatoly Chubais, then Head of the Presidential Administration, proclaimed that about 1/3 of local acts of the federal subjects including 19 national republics violated norms specified under the Federal Constitution (OMRI, *Russian Regional Report*, April 17, 1997).

<sup>12</sup> For example, on January 22, 2002, the Constitutional Court of the Russian Federation ruled that Tatarstan's constitution and its electoral law, which allowed for "administrative-territorial" and "territorial" district system in republican parliamentary elections, violated the Federal Constitution on the grounds that those legal norms infringed the freedom and equal rights for political participation in the region (*Postanovlenie konstitutsionnogo suda rossiiskoi federatsii* no.167, <http://ks.rfnet.ru>, searched on July 27, 2004).

Putin made substantial progress in curtailing the degree of ‘official asymmetry’—i.e., constitutionally embedded differences across different categories of federal subjects—in Russian federalism and center-periphery relations. For example, as of April 2002, Putin nullified thirty of forty-two federal-regional bilateral treaties that had been concluded with forty-six regions (Hahn 2003, 349). In his annual state of the nation address to both chambers of the Federal Assembly on April 18, 2002, Putin himself acknowledged that such treaties were constitutional, thereby admitting that they tended to lead to inequality among federal subjects (*RFE/RL Tatar-Bashkir Daily Report*, April 19, 2002).<sup>13</sup> Thus, some treaties may be preserved through negotiations between regions and Moscow provided that those treaties are conformed to federal law. However, it seems an inevitable trend that most ‘official’ asymmetry will be eliminated. Putin made it clear that such power sharing treaties must have a clear and strict legal and institutional framework, maintaining that the future power-sharing treaties should be discussed and approved by both houses of the Federal Assembly. As such, the Kremlin is intent on eliminating the real source of official asymmetry, including the Russian Constitution’s Article 72.<sup>14</sup>

As a matter of fact, the elimination of asymmetry in the sphere of laws and institutions was aimed at strengthening the federal government’s authority over regions and localities, and cementing the fragmented economic and legal space. To this end, the federal government strongly pressured regions to repeal or amend thousands of violations of the Constitution and federal laws in the regional constitutions and laws, which had been serving as the sources of ‘official’ asymmetry. In this way, numerous republican/regional legal norms conflicting with the Federal Constitution were annulled or revised.<sup>15</sup>

---

<sup>13</sup> The Constitution of the Russian Federation Article 11.3 implicitly leaves room for asymmetry in Russian federalism. That particular article allows for power-sharing treaties and agreements. It reads: “The jurisdiction and powers between the bodies of state authority of the Russian Federation and the bodies of state authority of the members of the Russian Federation shall be delineated by this Constitution, the Federation Treaty and other treaties on the delineation of jurisdiction and powers” (Belyakov & Raymond 1994, 19).

<sup>14</sup> The Articles 71-72 stipulate the spheres and range of power-sharing between the federal government and regional authorities. Such an overlapping nature of administrative jurisdictions may bring about serious contradictions between federal laws and regional laws (Hahn 2003, 349). Under such circumstances, it is no surprise that the center-periphery relationship fell into an asymmetric one by allowing for more prerogatives to national republics than other categories of federal subjects.

<sup>15</sup> For instance, on March 31, 2004, the Supreme Court of Tatarstan annulled the provisions about Tatarstan’s sovereignty and the requirement for presidential candidates to speak both of the republic’s official languages, Tatar and Russian (*RFE/RL Tatar-Bashkir Daily Report*, April 1, 2004).

#### 4.4. Reform in Local Self-Government

Alongside the dismantling of asymmetry in the federal structure, Putin's federative reform policy had a substantial impact on the local self-government as well. Meanwhile, Putin established a federal commission to deal with the issue of the redistribution of jurisdictions and powers among different levels of authorities—federal, regional, and local governments. In September 2001, Putin formed a presidential commission mandated with the task of proposing changes in legislation concerning regional and local government in Russia. The commission was headed by the then Presidential Administration Deputy Head Dmitrii Kozak. In October 2002, the commission prepared a comprehensive legislation proposal on the subject of local autonomy and the delineation of competencies and powers between different levels of authorities.<sup>16</sup> The Kozak Commission proposed that the practice of 'unfunded mandates (нефинансируемый мандат),' administrative responsibilities imposed by the federal government or regional government on the regional authorities or local self-governments without sufficient allocation of resources to implement them should be phased out.<sup>17</sup> To date, the local governments have been held responsible for a wide range of administrative services such as housing, social protection, education, healthcare, municipal police, and cooperation with foreign municipalities regarding welfare services. Regardless of such a high level of burden on the municipalities, they have not been provided with sufficient budget resources. For instance, in 2003 the portion of budget incomes on the part of local self-governments held 23% of the consolidated state budget expenditures, while that of budget expenditures amounted to 32% of the consolidated state budget expenditures. Thus, local governments demanded that the

---

<sup>16</sup> After long and fierce debates, in January 2003 Putin submitted the bill to the State Duma. The title of the legislation proposal was "Ob obshchikh printsipakh organizatsii zakonodatel'nikh i ispolnitelnykh organov gosvlasti sub'ektov RF (2003 № 95-ФЗ)." The bill passed its first reading in the Duma on February 21, 2003, with 269 out of 450 members voting in favor of the bill (*Leningradskaya Pravda*, February 5, 2004). The bill, amended on June 19 and August 2004, will be made effect on January 1, 2006 (<http://lenpravda.ru/reading1.phtml?id=3730>, searched on February 5, 2004). Also, the basic law on the local municipal government was enacted, which will take effective in January 2006 (Lapin & Lyubovnyi 2005). This law is entitled "Ob obshchikh printsipakh organizatsii mestnogo samoupravleniya v Rossiiskoi Federatsii (2004 № 131-ФЗ)"

<sup>17</sup> This practice, prevalent during the 1990s, was caused by the fact that because of its weakness the amount of the federal government's fiscal revenues was not large enough to fund social benefits and public services for Russian citizens on its own. The practice of 'unfunded mandate' imposed on local administrations by the regional government had been a heavy burden upon the localities. Thus, such practice became high on the list of federal reform. For example, by the end of 2000 the Federal Constitutional Court ruled that because the Charter of Kurskaya Oblast, allowing for transferring the social welfare responsibilities to the localities without providing proper budget, violated the federal Constitution, it must be amended (*Rossiiskaya gazeta*, December 19, 2000).

existing portion of tax incomes to the localities (8% of the consolidated budget revenues) should be increased to 17% of the total national tax incomes (Sobyenin 2003/2004, 36).

This kind of reform, which was driven by the Kozak Commission, has divergent ramifications. On the one hand, the new law presumes that organs of the local government are no longer supposed to retain their status of self-government, which had previously been considered separate from the hierarchical state structure stipulated by the Constitution. Therefore, the local government is now subject to the federal government's and the regional authorities' administrative control *de jure*. On the other hand, the new legislation apparently provided the localities with more autonomy in that the new law prohibited regional governments from arbitrarily interfering with organs of the local government by delimiting delegated powers of the former over the latter (Article 26.3 of 2003 № 95-ФЗ).

Yet, with respect to the administrative activities mandated by Moscow—payments of medical doctors and teachers, for example—the federal government may control the local government, bypassing the regional governments (Nagornykh 2002). Moreover, Moscow has the upper hand of regional and local governments. For example, under the new tax code, the federal government along with the regional government may intervene in the fiscal affairs at local level by setting regulations and guidelines for expenditures. According to the Kozak proposal, the degree and range of discretion with which regional governments can interfere in the administrative affairs at the local level will be reduced substantially. The granting of substantial autonomy to the localities could constrain republics' demands for asymmetry and dissatisfaction concerning the asymmetric relations on the part of other federal subjects (Hahn 2003, 350). Furthermore, federal government's recent reform in local self-government and fiscal reform may run the risk of rendering benefits including social protection for local residents endangered by transferring expenditure responsibilities to regional and local governments, while Moscow monopolizes the privilege of taxation policy.<sup>18</sup> For example, the law on monetization of benefits (2004 № 122-ФЗ), which took effect on January 1, 2005, not only aroused nation-wide protests from pensioners, but also

---

<sup>18</sup> Also, at the federal subject level, there exists a tendency of fiscal centralization. That is, regional governments take initiative in collecting local fiscal revenues and distributing them to the localities. Because of such centralized fiscal policy at the regional level, a number of local self-governments have been forced to scrap many important programs for residents and local economic development. For example, the Vladivostok city government has recently been held responsible for 50% of the fiscal revenues for the Primoriye Krai, while receiving only 11% of the fiscal resources that the city remits (Interview with officials of the City of Vladivostok, who wanted to be anonymous, conducted on February 25, 2004).

brought about outcry from regional leaders.<sup>19</sup> In this way, the Putin regime has been trying to strengthen the federal government by curbing political and fiscal clout of regional and local governments, bringing inter-governmental relations into the frame of vertical structure of state power.

#### 4.5. Political Reform of 2004

The federal government's centralization drive has recently become even intensified. For instance, on September 13<sup>th</sup>, 2004, right after a series of terrorist attacks including the Beslan tragedy that was committed by Chechen separatists, Putin announced his plan to tighten Moscow's control over regions "in order to cope with terrorism efficiently." Among other things, he proclaimed that popular elections for governors would be scrapped. Instead, regional leaders are supposed to be nominated by the president of the Russian Federation and then will be confirmed by the regional legislative bodies. Dominated by the pro-Kremlin party, "United Russia," with more than 300 seats out of 450 seats, the State Duma swiftly pushed for the legislation procedure. Only in a couple of months after the submission of the legislation proposal by the President, it was passed in the State Duma and in the Council of Federation on December 3<sup>rd</sup> and December 8<sup>th</sup>, 2004 respectively.<sup>20</sup> According to the legislation proposal, popular elections for executive leaders in the federal subjects will be abolished. Instead, the President of the Russian Federation will recommend a candidate to the regional legislature no later than 35 days ahead of expiration of the incumbent regional leader's term. The regional legislative body must vote on the candidate appointed by the President in the course of 14 days after the submission of

---

<sup>19</sup> Being composed of a series of amendments to the existing laws, this particular law was enacted to the effect that the existing benefits for pensioners, veterans, invalids, students, military personnel, and others—free or discounted transportation, medication, boardinghouse, and so on—should be replaced by partial cash compensations. Regional governments responsible for paying the cash compensations were not only troubled by tremendous financial burdens. Further, they also became a major target of protests from angry people. Faced with such a complicated situation, regional leaders voiced their complaints and concerns over the hastened reform policy. For example, Moscow Mayor Yuri Luzhkov warned that the 'monetization law' would take Russian society apart. And Valentina Matvienko, Saint-Petersburg Governor, referred to such an unduly difficult situation as "tsunami" (*Utro.ru*, 22/03/2005, <http://www.utro.ru/articles/2005/03/22/420281.shtml>; *Nezavisimaya gazeta*, 07/04/2005).

<sup>20</sup> This law (2004 № 159-Ф3) is made up of a series of amendments to the existing laws; "Ob obshchikh printsipakh organizatsii zakonodatel'nykh in ispolitel'nykh organov gusudarstvennoi vlasti sub'ektov Rossiiskoi Federatsii" and "Ob osnovnykh grantiyakh izbiratel'nykh prav i prava na uchastie v referendumakh grazhdan Rossiiskoi Federatsii" (*Rossiiskaya gazeta*, 15/12/2004).

presidential recommendation to the regional parliament. If a regional parliament rejects the appointed candidates 3 times consecutively, the President can dismiss the regional legislative body.

Putin also proposed that popular elections for the State Duma deputies (225 posts in the whole country) in the single-member district should be replaced by elections in the form of proportional representation. That is, the legislation proposal demanded that all of the 450 seats in the State Duma should be elected only through the party list.<sup>21</sup> Thus, this particular legislation eliminates the possibilities of independent politicians' claiming to lawmakers, and makes it even more difficult for smaller parties to earn the parliamentary seats. This legislation proposal was originally advocated by Central Elections Commission chairman Aleksandr Vneshnyakov on the ground that the parliamentary elections based on only party lists may foster favorable conditions for developing large and solid parties representing a wide range of different interests in Russian society (*LENTA.RU*, 08/12/2004, <http://lenta.ru/russia/2004/12/08/putin>, searched on 11/04/2005).

Putin justified the proposal as a necessary response to the Beslan school hostage seizure and other terror attacks. However, it is said that such ideas had begun to be discussed and prepared well before the terrorist attacks of August-September 2004 (*Vremya*, 14/09/2004). However, critics of this legislation have argued that it would further consolidate the Kremlin's control over the lower house and ensure that it would continue to operate as a rubber stamp and a junior partner of the Kremlin. Through the reform of the Council of Federation in 2000, Putin succeeded in emasculating the upper house. Despite strong backings from many politicians including incumbent regional bosses, Putin's plan immediately aroused grave concerns and criticisms about hyper-centralization of state power in the hands of the Kremlin, which is believed to be a serious threat to democracy in general, and federalism and local autonomy in particular. Moreover, the critics argued that the proposed abolition of gubernatorial elections and individual races for Duma seats would further weaken public control over the inefficient and corrupt government, because without intra-party democracy the parliamentary elections solely through the party list produce loyalists to the Kremlin or party bosses with the lack of accountability to voters (Delyagin 2004). While those reform measures will help the president have tight grip on regional leaders, they may become a serious boomerang effect on the Kremlin. Under new political surroundings, negative effects of policy implementations in the region, for which governors had been

---

<sup>21</sup> The State Duma on April 15, 2005 gave its approval in the second reading of the legislation proposal with the voting results of 335 to 96 (*Moscow Times*, 18/04/2005).

responsible before, will become political liabilities of the president himself. For example, by early 2005 the law on ‘monetization of benefits’ aroused widespread protests mainly from the elderly people targeted directly against President Putin as well as local leaders.

## V. Balance Sheet of Putin’s Political Reforms: Assessment of Russian Federalism

In the previous section I have analyzed in detail the Putin government’s drive for centralization over the past five years. Now based on the above observations, how can the changes in the center-regional relationship under Putin and the characteristics of Russian federalism thereof be assessed? Derived from general rationales for federalism delineated in the section II of this paper and the particular policies and their results mentioned in the previous section, an assessment of the nature of Russian federalism is in order.

### 5.1. Regarding Local Autonomy

Over the past several years, the federal government has been constantly building up its own resources of influence and power base at the cost of autonomy of regions and local self-governments. First, since Vladimir Putin was sworn in as president in 2000, the Kremlin launched a series of reforms aimed at dominating regional bosses. Included in this case are the establishment of seven federal districts, the deprivation of governors of ex officio membership of the Council of Federation, and enactment of federal laws enabling the president of Russian Federation to dismiss governors and regional legislatures, who are believed to violate federal laws seriously.

Second, the Putin government has been strenuously attempting to reduce disparities among federal subjects in terms of official status and unofficial relationship between Moscow and individual sub-national governments, thus substantially curtailing the nature of asymmetric federalism. It should be noted that Moscow’s efforts to redress asymmetry in the sphere of center-region relations were aimed at securing the integrity of state power and consolidating the Kremlin’s grip on regional and local governments.

Third, as mentioned above, the recent few years witnessed an unequivocal tendency toward centralization in terms of fiscal policy. On the revenue side, the shares of tax collection for the central government have dramatically increased, while Moscow's control over the expenditures by the regional and local governments has been tightened.

Fourth, as clearly shown in the political reforms unveiled immediately after the Beslan tragedy, a new federal law was enacted to the effect that popular elections for regional leaders would be abolished altogether and instead regional bosses would be appointed by the president of the Russian Federation. Furthermore, by the time when this particular law took effect, even the ideas about the substitution of the appointment of local leaders including mayors for popular elections began to be discussed among governors and other politicians in the State Duma (*Moscow Times*, 03/02/2005 & 15/03/2005). Also, the individual races for the State Duma seats in the single-member district have been abolished, which seems to constrain representation of local and regional interests as well.

Finally, reforms in local self-government initiated by the Kremlin team made it possible for the federal government to officially intervene in the local governments, thus bringing the localities into the vertical structure of state power as well. For example, with respect to the mandated administrative duties, the federal government may control the local government, bypassing the regional governments. By so doing, the federal government has been consolidating its control over the federal subjects and the localities. As noted before, decentralization of state power and clear and transparent division of functions among different levels of state authorities are a necessary condition for federal relations. From this point of view, the recent developments in center-province relations in Russia seem to have damaged the spirit of federalism gravely.

## 5.2. On Political Stability

An apparently solid power base and tight control over the state apparatus including regional and local governments notwithstanding, the Putin regime has recently been bogged down with troubles and even potential political upheavals. Immediately after his inauguration, Putin made himself surrounded with loyal entourage mainly from St. Petersburg with KGB career. Relying on such a small inner circle of the 'St. Petersburg Mafia' and bureaucrats from power ministries (*siloviki*), Putin has been reluctant to incorporate various political groups with a wide range of different interests

in Russian society. Instead, through the alliance of authoritarian leadership and old-style bureaucrats concerted efforts were made to consolidate the power of the central government and Putin's personal power base. Putin and his inner circle not only rolled back the centrifugal movement on the part of regional leaders, but also suppressed the independent-minded mass media and business moguls. But, Putin's centralization drive and somewhat authoritarian policy toward independent social groups resulted in a number of complicated ramifications.

First, with respect to the policy making style, since Putin has been inclined to rely on a pretty narrow human resources pool, mainly composed of subservient bureaucrats and former intelligence personnel, his team's approach to problem-solving has been problematic in terms of processes and substances. Disregarding broad social interests, the strengthening of both state organs and Putin's personal power led up to the lack of accountability of political elites, demoralization of the business class, and fragmentation of society. Under these circumstances bureaucrats, or *chinovniki*, who pretend to implement missions set by the Kremlin and national interest in general, are actually indulged in pursuing their own interests (Shevtsova 2004, 48). Without vital discussions, criticisms, feedbacks, and clear and fair monitoring system, the decision-making process mostly filled with loyalists and 'yes-men' is likely to produce not only inefficient policy results, but also rampant and chronic corruption, serving as fertile soil for political instability.

As a result of Putin's political reforms announced in the aftermath of the terrorist atrocity in Beslan, the accountability of local officials is further reduced. From a short-term perspective, these reforms are likely to consolidate political stability in Russian politics by preventing regional bosses from challenging the Kremlin and by constraining feuds among regional elites. Yet, from a long-term perspective, these political reforms seem to be inimical to political stability and further conducive to fanning political extremism. That is, by eliminating local elections for governors other local bosses, Kremlin's political initiatives will apparently reduce political access and feedback as well as local accountability, which may serve as a safety valve for political vitality and stability.

Second, the statist approach coupled with the centralization drive even aggravated the ethnicity-related conflicts in some provinces. Specifically, with respect to the Chechen issue, the Putin government has been adopting hard-line policies all the way without any serious attempts at peaceful settlement of the conflicts. Such a militant approach, unfortunately, never achieved the stability goal, only brewing constant hostilities in the North Caucasus. Furthermore, the reduced accountability local leaders as a result of

Puin's political reforms stagnated or even aggravated the local economy, fanning discontent among residents in the break-away region (Ware 2005).

### 5.3. On Disparities among Regions and Economic Growth

Considerable disparities among regions in terms of production levels, investments, and incomes of residents have been widened or maintained over the past few years. Thus, it seems that the central government's fiscal policy has not been very successful in reducing uneven developments among regions.

**Table 2. Regions' Per Capita Budget Revenues in terms of Ratio to National Average Before and After Distribution of Resources from FFSR\* (2001-2003)**

Contents	2001		2002		2003	
	Before	After	Before	After	Before	After
Region with the largest budget revenues (RLB)	4.11	4.11	4.16	4.16	4.09	4.09
Region with the smallest budget revenues (RSB)	0.18	0.46	0.19	0.59	0.09	0.61
Ratio between RLB and RSB	22.3	8.9	21.4	7.0	45.5	6.7
Top 10 regions in budget revenues (Top 10)	2.67	2.67	2.47	2.47	2.29	2.30
Bottom 10 regions in budget revenues (Bottom 10)	0.27	0.57	0.32	0.65	0.25	0.68
Ratio between Top 10 and Bottom 10	9.9	4.7	7.7	3.8	9.3	3.4

Sources: Klimanov and Lavrov (2004, 115)

\* Fund for Financial Support of Regions

First, there have remained considerable imbalances among regions in terms of financial resources in both revenues and expenditures. As shown <Table 2>, there exist huge differences in the capability of fiscal revenues, which indicates considerable disparities in economic power across federal subjects.

Second, despite re-centralization efforts by the central government with respect to political, legal, and fiscal issues, differentials in the living standard among Russian regions kept increasing in the latter part of the 1990s. As indicated in <Table 3>, living standard in the highest echelon of federal subjects in terms of GRP (gross regional product) per capita recorded steady growth, while that in the poorest regions was basically kept at a standstill. Even during Putin's first term, such regional differences including those of wage levels still remained striking (Ivanchenko 2005). In other words, "unofficial," or socioeconomic, asymmetry among federal subjects existed in the midst of re-centralization policy under Putin. Of course, the central government pursued GRP redistribution through such fiscal instruments as federal taxes and federal grants-in-aid.

Third, the figures of regional industrial products are substantially related with investments. As shown in <Table 4>, an excessively uneven distribution of foreign investments among regions indicates that there exists significant disparities in development levels among Russian regions.

According to an empirical study, the federal government has been taking active measures to reduce inequalities among regions.<sup>22</sup> Yet, the fact that the federal subsidies based on grants-in-aid became steadily progressive shows the possibility that there may exist asymmetry in each region's fiscal relations with the federal government. It also signifies that there may exist a considerable degree of inequality in standard of living among regions as well. For example, per capita spending on secondary education differs several times from region to region (Kurlyandskaya 2004, 5).

Similar asymmetry also exists at the level of the municipal self-government. That is, capabilities at the local self-government level vary widely across localities in the country.<sup>23</sup> In this way, over the past few years the standard of living in the better-off regions has steadily ascended, while those of the worse-off regions deteriorated or stood still.

---

<sup>22</sup> And the distribution coefficient to GRP was about 13-14% in 1999-2000, whereas it jumped to 18.9% in 2001. That is, Moscow's efforts for GRP equalization through fiscal instrument became more active since 1999. Also, this phenomenon means that the degree of dependency of federal grants-in-aid on GRP became higher in 2001 than during the period of 1999-2000 (Kadotchnikov, Sinelnikov-Murylyov, Trunin, and Tchvetverkov 2003).

<sup>23</sup> For example, more than 60% of industrial production in Ryazan Oblast is made in the oblast center, while the shares of each of the nine least developed raions remains less than 0.5% (Fedotkin 2000).

**Table 3. Trends in the Gross Regional Product per Capita  
(Rubles; Until 1998 Thousand Rubles)**

<b>Region/Year</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Moscow</b>	1804 (4.55*)	2846 (5.49)	3524 (5.86)	4083 (6.34)	6857 (6.79)	9285 (6.72)	12137 (6.57)	13668 (6.24)
<b>Tyumen</b>	1085 (2.11)	1736 (2.69)	2209 (3.02)	2129 (2.51)	3264 (2.35)	4931 (2.79)	7102 (3.15)	8430 (3.13)
<b>Sakha</b>	957 (1.67)	1486 (2.05)	1741 (2.01)	1762 (1.79)	2844 (1.84)	3606 (1.59)	4676 (1.46)	5939 (1.65)
<b>Murmansk</b>	740 (0.94)	1062 (0.98)	1300 (1.06)	1509 (1.30)	2367 (1.25)	3387 (1.39)	4377 (1.30)	5414 (1.34)
<b>Buryatiya</b>	372 (-0.31)	497 (-0.44)	738 (-0.16)	643 (-0.40)	1144 (-0.26)	1590 (-0.23)	2188 (-0.19)	2977 (-0.11)
<b>Adygeya</b>	274 (-0.65)	413 (-0.66)	546 (-0.57)	607 (-0.47)	968 (-0.47)	1387 (-0.41)	1646 (-0.56)	2102 (-0.63)
<b>Kalmykiya</b>	232 (-0.79)	338 (-0.85)	476 (-0.72)	470 (-0.74)	740 (-0.76)	957 (-0.80)	1508 (-0.65)	1718 (-0.86)
<b>Ingushetiya</b>	116 (-0.18)	203 (-1.19)	291 (-1.12)	317 (-1.04)	363 (-1.12)	468 (-1.23)	882 (-1.08)	1172 (-1.18)
<b>National Mean</b>	464.1	672.87	811.24	845.96	1353.76	1845.69	2465.93	3159.24
<b>Standard Deviation</b>	294.67	395.69	462.99	510.84	810.24	1107.77	1471.52	1683.35

Source: Goskomstat, *Rossiiskii statisticheskii yezhegodnik 2001* (Moskva: Goskomstat, 2001), ss. 173-174; Goskomstat, *Rossiya v tsifrakh 2003* (Moskva: Goskomstat, 2003), ss. 38-41.

\* The numbers in parentheses indicate z-scores.

**Table 4. Leading Regions in the Volume of Foreign Investments  
(Portions of the Total Amount of Foreign Investments in RF, %)**

<b>Subjects of Federation</b>	<b>Year 2004</b>	<b>Subjects of Federation</b>	<b>Year 2003</b>
Moscow City	37.91	Moscow City	46.76
Khanty-Mansiiskii AO	9.88	Khanty-Mansiiskii AO	10.58
Sakhalinskaya Oblast	9.69	Sakhalinskaya Oblast	7.01
Moskovskaya Oblast	4.51	Omskaya Oblast	5.78
Krasnoyarsk Krai	4.00	Sverdlovskaya Oblast	4.43
Volgogradskaya Oblast	2.74	Moskovskaya Oblast	4.24
Lipetskaya Oblast	2.72	Chelyavinskaya Oblast	3.47
Samarskaya Oblast	2.71	St. Petersburg City	2.34
Omskaya Oblast	2.68	Sakha Republic (Yakutsiya)	2.01
Tyumenskaya Oblast	2.66	Samarskaya Oblast	1.39
<b>Total of Top 10 Regions</b>	<b>79.51</b>	<b>Total of Top 10 Regions</b>	<b>88.02</b>

Source: Institut ekonomiki perekhodnogo period (2005, 28)

Meanwhile, Putin's centralization drive has not been successful in making the Russian economy in a better shape either. Although it is a bit too early to evaluate the economic effects of Putin's political reforms, it seems that because of concerns over suppression of the mass media, business elites, and local autonomy, foreign investors are hesitant to invest their money in Russia, which may have a negative impact on economic development in Russia. In fact, despite soaring prices of petroleum, the growth rates of the Russian economy have been standstill or even decreased. For example, the GDP growth rates of 2004 were 7.3%, while those of the previous year were 7.1%. Taking the sky-rocketing petroleum prices into consideration, the contribution of other production and service sectors to the GDP growth rates was by far reduced (Institut ekonomiki perekhodnogo period. 2005, 36). This phenomenon does not augur very well for the Russian economy at all.

#### 5.4. On Democracy: Back to the Future?

While amassing its own power resources through domestication of the parliament, neutralization of recalcitrant business elites, and domination of local bosses, the Putin regime increasingly became authoritarian in its nature. The Putin regime has been taking measures to constrain the influence of the business elite or oligarchs. For example, the federal prosecutors arrested Vladimir Gusinsky of the Most Group and then tried to investigate Boris Berezovsky of the LogoVaz Group, who later fled abroad to escape indictment. Moreover, the Kremlin suppressed freedom of the press by closing down or nationalizing some independent, maverick-like media companies critical of Putin and his government. And as unveiled in the political reforms of 2004, the Kremlin denied local residents the rights to select their own regional political leaders and representatives to the federal parliament. Therefore, an increasing number of people at home and abroad began to voice their concerns about authoritarian characteristics arising on the political horizon in Russia.

The serious problem with authoritarianism and/or limited democracy is that it encourages neither contestations in the political sphere nor free competition and creative experimentation in the economic arena. Due to the lack of competition and effective communication and/or feedback channels, the decision-making process is inclined to be dominated by 'group think,' which may lead up to serious mistakes. And under these circumstances the executive powers have no incentive whatsoever to force through reforms (Yudaeva 2004, 80)

Under these circumstances, grave concerns and bitter criticisms about the authoritarian posture have been raised from inside and outside of Russia. For example, a Russian scholar evaluates Russian democratization as degenerative, arguing that after 15 years of transition, Russia went back to the point where it had tried to get out of (Shevtsova 2004, 51). Another Russian commentator aptly refers to Putin's statist and authoritarian posture as "uniting round nothing" [other than consolidating the power base of Putin and his entourage] (Bovt 2005). Also, the U.S. State Department in its annual reports accused Russian leadership of violating human rights in Chechnya, putting pressure on NGOs and further strengthening the executive power at the federal level (*Moscow Times*, 30/03/2005).

Taken together, federalism in Russia is in a deep crisis caused by the recent tendency of centralization process driven by the Kremlin and its characteristics of 'illiberal democracy' or authoritarian posture. An extremely lopsided relationship between the center and provinces contradicts with the spirit of federalism in which state power is

fairly and clearly shared and distributed practically and institutionally. Such an excessive centralization policy of the federal government not only impairs local autonomy in particular and democratic development in general, but also is detrimental to political stability. On the surface, the strengthening of the executive power and the reshuffling of the state power in a vertical way apparently enhances the effectiveness of the state power and leadership's firm grip on state organs and other sectors of society. Such an attempt at putting various sectors of society including provinces under the central government's control may fan tremendous discontent among various societal sectors including the business sector, however. Furthermore, such a centralization drive may stimulate widespread revolts in provinces against the central government, which could arouse enormous political instability. In particular, given that many of provinces in Russia are represented by certain minority ethnic groups, the centralization efforts at the cost of regional autonomy in a mid or long-term perspective is likely to become a serious setback to the integrity of the state as well as the Kremlin leadership. As a commentator put it, Putin's campaign for strong state and centralization drive at a first glance strengthened state power and enhanced the effectiveness of the state organs. Yet, the actual results were the other way around: a weak, corrupt and unaccountable regime, and authoritarianism without authority (McFaul 2004).

## VI. Conclusion

As analyzed above, since Vladimir Putin came to power in 2000, the Kremlin has been strenuously building up its own resources of power vis-à-vis regional and local governments. Thus, the center came to dominate regions and localities institutionally, politically, and economically to the extent that the very nature of 'federalism' embodied in the center-periphery relations in the Russian Federation may be thrown into doubt. A western commentator boldly contended that Putin's reforms "ran perilously close to becoming de-federalization" (Sakwa 2002a, 24). According to another evaluation, Russian federalism under Putin still falls short of unitaristic characteristics observed in Germany and Austria (Heinemann-Grüder 2002, 87).

Aside from disputes over whether or not the Russian federal system already lost its federal characters, further being degenerated into a unitary state, there is no denying that Putin's centralization drive over the past five years brought about serious imbalances

between the center and provinces. If this tendency continues for a while, the principle and spirit of federalism embedded in the structure of state power and center-periphery relations in Russia will inevitably fade away, increasingly approaching that of unitarism instead. If such a centralization tendency coupled with an authoritarian color of the Putin regime continues or even deepens, it is hard to exclude the possibility to arouse serious social, political, economic, and ethnic turmoil. Such a horrible situation in turn may lead up to an uncontrollable crisis in Russia like the last years of the Soviet era.

## References

- Avtonomiv, Aleksei. 2003. "Principles of Federalism in Russia and USA: Comparative Aspect." *Kazan Federalist* 4, No.8.
- Belyakov, Vladimir V. & Walter J. Raymond. eds. 1994. *Constitution of the Russian Federation: With Commentaries and Interpretation by American and Russian Scholars*. Lawrenceville, VA: Brunswick.
- Bermeo, Nancy. 2002. "The Impact of Institutions." *Journal of Democracy* 13 (April).
- Bovt, Georgy. 2005. "Uniting around Nothing." *Moscow Times*, April 7.
- Brinkman, Richard and Georgy Bovt. 1994. "Russian Federalism; An American and West European Comparison." *International Journal of Social Economics* 21, No.10-12.
- Bulyavinov, Ilya. 2004. "Gde konchaetsya 'vertikal'" *Kommersant' vlast'*, No.2 (January 19-25).
- Chandler, James A. and Terry Nicholas Clark. 1995. "Local Government," in Seymour Martin Lipset ed., *The Encyclopedia of Democracy* [vol. 3] London: Routledge.
- Chernyavskii, A. and K. Vartapetov. 2004. "Byudzhethnaya detsentralizatsiya v stranakh s perekhodnoi ekonomikoi." *Voprosy ekonomiki*, No.11.
- DeBardleben, Joan. 1997. "The Development of Federalism in Russia." Peter J. Stavrakis, Joan DeBardleben, and Larry Black eds. *Beyond the Monolith: The Emergence of Regionalism in Post-Soviet Russia*. Washington, D.C.: The Woodrow Wilson Center Press.
- DeBardleben, Joan. 2003. "Fiscal Federalism and How Russians Vote." *Europe-Asia Studies* 55, No.3.
- Delyagin, Mikhail. 2004. "The Power Vertical is Built on Sand." *Moscow Times*, October 11.
- Elazar, Daniel J. 1968. "Federalism." David L. Sills & Robert King Merton, eds. *International Encyclopedia of Social Sciences* (Vol. 5) New York: Macmillan.
- Elazar, Daniel J. 1987. *Exploring Federalism*. Tuscaloosa: University of Alabama Press.
- Encarnacion, Omar G. 2004. "Democracy and Federalism in Spain." *Mediterranean Quarterly* 15, No.1.
- Fedotkin, V. 2000. "Federalizm i mestnoe samoupravlenie: problemy ekonomicheskogo vzaimodeisviya." *Voprosy ekonomiki* No.1.
- Gel'man, Vladimir. 2004. "The Politics of Local Government in Russia: From Decentralization to Recentralization." Paper Presented at the RPHERT

- International Conference titled *Ten Years of the Russian Transition: The State, Market, and Society in Transformation*, Seoul, April 19-20.
- Hahn, Gordon A. 2003. "The Past, Present, and Future of the Russian Federal State." *Demokratizatsiya* 11, No.3.
- Heinemann-Grüder, Andreas. 2002. "Is Russia's Federalism Sustainable?" *Perspectives on European Politics and Society* 3, No.1.
- Herd, Greville P. 1999. "Russia: Systemic Transformation or Federal Collapse?" *Journal of Peace Research* 36, No.3.
- Hill, Dilys M. 1974. *Democratic Theory and Local Government*. London: Allen & Unwin.
- Institut ekonomiki perekhodogo period. 2005. *Ekonomiko-politicheskaya situatsiya v rossii*. (Mart) Moskva: Institut ekonomiki perekhodogo period.
- Ivanchenko, V. 2005. "Regional'nye osobennosti federalizma." *Ekonomist*, No.1.
- Kadotchnikov, P., S. Sinelnikov-Murylyov, I. Trunin, and S. Tchetverkov. 2003. "Redistribution and Stabilization of Regional Revenues in the Russian System of Intergovernmental Fiscal Relations." Working Paper, Institute for the Economy in Transition, December 8.
- Kurlyandskaya, Galina. 2004. "Is Russia Ready for New Federalism?" Working Paper, Gorbachev Foundation, Moscow.
- Lapin, V. A. and V. Ya. Lyubovnyi. 2005. *Reforma mestnogo samoupravleniya i administrativno-teritorial'noe ustouistvo rossii*. Moskva: izdatel'stvo "Delo."
- Leff, Carol Skalnik. 1999. "Democratization and Disintegration in Multinational States: The Breakup of the Communist Federations." *World Politics* 51, No.1.
- Leksin, V. and A. Shvetsov. 1998. "Byudzetnyi federalizm v periode krizisa i reforma." *Voprosy ekonomiki*, No.3.
- Lyubintsev, Ya. 1995. "Rossiiskii federalizm: problemy i reshenie." *Ekonomist*, No.6.
- McAuley, Alastair. 1997. "The Determinants of Russian Federal-Regional Fiscal Relations: Equity or Political Influence?" *Europe-Asia Studies* 49, No.3.
- McFaul, Michael. 2004. "Putin's Strong Hand is Failing Russia." Center for American Progress (<http://www.americanprogress.org>), September 14.
- Mitchneck, Beth, Steven L. Solnick, and Kathryn Stoner-Weiss. 2001. "Federalization." Blair A. Ruble, Jodi Koehn, and Nancy E. Popson, eds. *Fragmented Space in the Russian Federation*. Washington, D.C.: Woodrow Wilson Center.
- Montesquieu, Charles, L. 1999. *O dukhe zakonov*. Moskva: Mysl'.
- Nagornyykh, Irina. 2002. "Peremena mestnykh slagaemykh." *Kommersant'-vlast'*, No.36 (September 16-22).

- Pogorletskiy, Alexander & Fritz Sollner. 2002. "The Russian Tax Reform." *Intereconomics* (May/June).
- Polshchuk, L. 1998. "Rossiiskaya model' peregovornogo federalizma." *Voprosy ekonomiki*, No.6.
- Popov, Vladimir. 2000. "Fiscal Federalism in Russia; Rules versus Electoral Politics." *Journal of Public Economics* 76, No.3.
- Riker, William H. 1964. *Federalism: Origin, Operation, Significance*. Boston: Little, Brown.
- Riker, William H. 1975. "Federalism." Fred I. Greenstein and Nelson W. Polsby, eds. *Handbook of Political Science: Governmental Institutions and Processes* (Vol. 5). Reading, MA: Addison-Wesley Publishing Co.
- Sakwa, Richard. 2002a. "Federalism, Sovereignty and Democracy. Cameron Ross, ed. *Regional Politics in Russia*. New York: Manchester University Press.
- Sakwa, Richard. 2002b. *Russian Politics and Society* (3<sup>rd</sup> Edition) London: Routledge.
- Semigin, G. Ya. 2000. *Rossiya: tsentr i regiony* [vypusk 6] Moskva: ISPI, RAN.
- Shevtsova, Lilia. 2003. *Putin's Russia*. Washington, D.C.: Carnegie Endowment for International Peace.
- Shevtsova, Lilia. 2004. "Kak rossiya ne spravilas' s demokratiei: logika politicheskogo otkada." *Pro et Contra* 8, No.3.
- Slider, Darrell. 1994. "Federalism, Discord, and Accommodation." Theodore H. Friedgut and Jeffrey W. Hahn, eds. *Local Power and Post-Soviet Politics*. Armonk, N.Y.: M. E. Sharpe.
- Sobyanin, S.S. 2003/2004. "Mestnoe samoupravlenie v possiiskoi federatsii: sostoyanie i perspektivy razvitiya." *Politiya: Analiz, khronika, prognoz*, No.4.
- Stepan, Alfred. 2000. "Russian Federalism in Comparative Perspective," *Post-Soviet Affairs* 16, No.2.
- Stolyarov, Mikhail B. 1999. "Razvitie rossiiskoe federalizma v sopostavlenii s zarubezhnymi federativnymi modelyami: Problemy perekhodnosti" Moskva: Rossiiskaya gosudarstvennaya sluzhba pri prezidente RF.
- Topornin, B. N. 2001. *Federalizm: teoriya, instituty, otnosheniya*. Moskva: Yurist.
- Treisman, Daniel. 1996. "The Politics of Intergovernmental Transfers in Post-Soviet Russia." *British Journal of Political Science* 26, No.3.
- Treisman, Daniel. 1998. "Fiscal Redistribution in a Fragile Federation: Moscow and the Regions in 1994." *British Journal of Political Science* 28, No.1.
- Viner, Jacob. 1950. *The Customs Union Issue*. New York: Carnegie Endowment for International Peace.

- Ware, Robert Bruce. 2005. "Extremist Economics." *Moscow Times*, January 17.
- Yudaeva, Ksenia. 2004. "Democracy: The Problem of Inequality." In Carnegie Center, ed. *Rough Crossing: Democracy in Russia*. Moscow: Carnegie Endowment for International Peace.
- Zakaria, Fareed. 2003. *The Future of Freedom: Illiberal Democracy at Home and Abroad*. New York: Norton.