Russian Federalism and Reform

The Declining Effectiveness of the Russian Central State?

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Regional governments have gained a degree of independence and an importance in Russian politics unprecedented in the Soviet past. Since the collapse of the Soviet Union they have been able to oppose the central government to an extent previously unimaginable. Can they continue to do so? Have they acquired enough power to enable them to impede the political and economic changes that the Center has tried to foster? The Third World is filled with regimes that found the path to radical change blocked by recalcitrant elements of their own society; subnational governments may form one such element in Russia.¹

Regional administration under the Soviet system was federal in name but not in practice. Regional governments were part of a chain of command that culminated in the Politburo in Moscow. Little was left to the discretion of subnational governments.² Resources were kept under Moscow's strict control. For subnational governments the most important resources were expenditures and revenues, including taxes. These are the lifeblood of all governments and the basic tools for transforming society.

Yet orders were not simply passed down from Moscow and mechanically carried out. Instead, there was a thick web of bilateral bargaining, with officials from all levels of administration seeking changes in plans, amounts of revenue, and the sources of revenue from the Center. They found and used levers of influence in the decentralized tax system, in which the distribution of revenues among governments was recalculated annually, and in the ever-changing mix of budgetary responsibilities with which each government was charged. The Center in turn sought changes in the actions of the supplicants that would allow it to reach the goals it sought to achieve. Bargaining was time-consuming. Moreover, it was bargaining with little constraint from the public, the consumers of government services, to whom no layer of government was truly accountable. Consequently, the parts of society that could most benefit from the programs of the central government could not protect those programs from distortions by subnational governments.³

Changes in the Gorbachev Era

Gorbachev began to make changes in the subnational governments with proposals given at the Nineteenth Party Conference in June 1988 and

James Voorhees is a consultant to the Congressional Research Service, Washington, D.C. The author would like to thank Jeffrey Hahn, Blair Ruble and Jim Nichol for their encouragement and comments. They bear no responsibility for the article’s flaws; neither the Congressional Research Service nor the Library of Congress bear responsibility for its content.
enacted in the next two years. Some of these proposals strengthened the separation of powers within subnational governments, heretofore dominated by the executive branch and its officials, who were beholden to a ministerial hierarchy reaching to Moscow. Efforts to decentralize government and to give more power to local soviets foundered during 1991 as the rising power of the republics left lower-level governments uncertain about what they could do. The result was paralysis.

Gorbachev called for the election of subnational soviets, a proposal that resulted in the elections that took place in the spring of 1990. These elections had two effects on relations between Russia's regions and central institutions. First, reformers, including some non-Communists, were elected to the subnational soviets. Their numbers were small and largely limited to the cities—Leningrad and Moscow above all. The election of the reformers was an important influence in pushing the collapse of the Communist Party. Nonetheless, more conservative forces were left in control in most of Russia's regions and republics.

Second, the subnational soviets acquired a basis for legitimacy and for independent action that they had not had before. The deputies elected were less likely to owe their status to the Party or ministerial hierarchy that reached to Moscow, and more likely to owe it to a popular constituency. This effect of the election was magnified by the collapse of the Party, which destroyed both the ideological underpinnings of the political system and much of the structure of control that bound local elites to the Center. Even the many new deputies who were members of the local Communist elite or owed their candidacy to the local elite no longer found themselves subject to as many sanctions from the Center as before. They had greater scope for political action.

The greater powers gained through Gorbachev's reforms and the crumbling of the Union led some of the Union republics to gain their independence and led to a drive toward greater autonomy within Russia. This was encouraged, perhaps even inspired, by Boris Yeltsin, who was then still the chairman of the Russian Supreme Soviet. Most of the autonomous republics declared their sovereignty in 1990. In December the Russian Constitution was amended to drop the "autonomous" from their names. Four of the five autonomous oblasts were made republics by the Russian Supreme Soviet a month before the August coup. The reasons for these changes were complex. They included nationalist concerns, a desire to increase the political status of the territories and the political power of their leaders, and a desire to increase control over the natural resources in the republic.

Several regional associations appeared the year before the dissolution of the Soviet Union. These included the Greater Volga Association of eight oblasts and four republics; the Great Urals Association of five oblasts and two republics; the Siberian Charter of eight oblasts and three republics; and the Far Eastern Association of seven oblasts and two republics. They originated without the encouragement of the Center, and perhaps even in opposition to it. These organizations have largely economic purposes, such
as coordination of trade within the region and the integration of investment plans. Their political significance lies first in their very existence as groups of regional political actors whose association owes nothing to the Center and in their potential as centers of opposition to the central government.

After August
As the Soviet Union collapsed after the August coup, its institutions and responsibilities passed to the Union republics, including Russia. This changed the relationship that the government of Russia had with the republics and regions of the Russian Federation. The former was now the central government, responsible for taxation, control of the money supply, and the provision of services that had been managed or at least overseen by the Soviet Union. It also meant that where the republics of Russia had sought an improvement of their status in relation both to the Soviet government and the Russian government, their focus was now exclusively on improving their status in relation to the new central government—Russia's.

Boris Yeltsin and his government took up their new responsibilities with alacrity. It became clear that they wished to transform Russia politically and economically into a democratic state with a market economy and that they were willing to gamble to try to reach these goals. Politically the most important step—the banning of the Communist Party—was taken largely as a measure of self-preservation. This destroyed the already weakened system of Party control that had been an important means for effecting policy in the regions and republics. Economically the biggest gamble was the liberalization of most prices on 2 January 1992. But other important measures taken by President Yeltsin and his reformist government included banning the activities of Gosplan and Gossnab (the custodians of the planned economy), thus bringing the creaking system of planning to a halt; the introduction of a major privatization program, and the formation of the Russian Federation State Tax Service as a ministry-level organization independent of the Ministry of Finance.

The system of government finance was overhauled to move it away from the system established for the centralized, planned economy and toward one that more closely resembled what has been prevalent in the West. A law on the fundamental principles governing the budget process for central and subnational governments was passed in October. Among other things, this law included the principle that the budget of each government was independent, with each government having its own sources of revenue and the ability to determine how it would spend it. Laws creating a value-added tax (VAT) to replace the turnover and sales taxes of the Soviet era and to change the income and excise taxes were passed in December.

A step toward stability in government finance was made with the law On the Basic Principles of Taxation, passed in December by the Supreme Soviet. According to these principles, the rates and bases for most taxes would both be set by the central government, with revenue assigned to the different types of government. The central government would receive all receipts from the VAT, all export taxes and customs duties, a share of all
payments from the sale of natural resources, and a few lesser taxes. Regions would retain receipts from the personal income tax, the profit tax, most excise taxes, and other, lesser taxes and duties. Local governments would be assigned numerous taxes and fees, but would remain strongly dependent on the regions for revenue.

The proposed reforms in the system of government finance might be thought of as steps toward the creation of fiscal relations between the Center and regions that included a clear delineation of the power to tax and of tax availability, a clear delineation of expenditure responsibilities, and subsidies awarded by clear non-negotiable criteria. Such a system would improve the financial stability of both the Center and the regions, facilitating long-term budgetary planning. It would increase the accountability of the regions by making them less dependent on the arbitrary supply of funds from the Center. This would increase their autonomy. It would also go a long way toward introducing a hard-budget constraint on regional governments.

Yeltsin also took several steps in the last months of 1991 to increase his power—his ability to effect his reforms. Having acquired the power to appoint regional heads of administration on 22 August, soon after the August 1991 coup, he began to place his own appointees in many of those positions. Yeltsin also ensured that he would retain this right by refusing to sign—in effect vetoing—a law providing for the election of local heads of administration. He appointed presidential representatives in many regions to “coordinate” the activities of executive branch institutions. He acquired from the Supreme Soviet the temporary right to pursue economic reform through decrees that had the force of law. He also issued a decree creating small soviets within regional soviets to act as working legislative bodies in an attempt to make the soviets more effective.

But a rash of economic and political problems arose that bedeviled him for the next few years. Russia faced strong economic pressures before it took over the institutions of the Soviet Union. Production had been stagnant or falling for a decade or more, but its decrease accelerated in 1991. Strong inflationary pressures were felt throughout 1991, with the annual rate of inflation exceeding 300 percent in December 1991, before the liberalization of prices. These pressures accelerated as Yeltsin removed central controls and, especially, when prices were liberalized at the beginning of 1992.

The removal of central control gave leaders in subnational governments the ability to act to respond to the economic pressures placed on their regions. The variety of their responses to these pressures showed the extent to which central control had disappeared. Some regional leaders promoted more extensive reforms. The Nizhny Novgorod Oblast has been an outstanding example of this and remains exceptional by the degree to which it has advanced reforms and in its ambition to become a national model of reform.
reform.\textsuperscript{16} The appointment of the head of administration in the oblast, Boris Nemtsov, as the presidential representative in the region—an unusual arrangement—suggests that this response was favored by Yeltsin and the Center. Other regions have also tried to extend the reforms introduced by the Center. Still others tried to retain what they could of the old system. And some regional leaders took advantage of the fluidity of the economy and the weak structure of control for personal gain.\textsuperscript{17}

The reforms advanced at the end of 1991 and the beginning of 1992 increased the pressure on all government budgets. Both the new income tax and the VAT were harder to administer than the taxes they replaced. This almost inevitably reduced the amount of revenues taken in.\textsuperscript{18} The value of revenues not immediately spent was reduced as the value of the ruble fell. Furthermore, payments for social services provided by governments at all levels tended to lag behind the costs of providing them. The rents paid for housing, for example, continued to be controlled so that they rose little or not at all as prices rose, yielding little income as the costs of simply maintaining housing increased.\textsuperscript{19}

One response to this fiscal pressure was the devolution of responsibilities from the Center to the regions. The responsibility for all capital investment, for example, was passed to the regions in 1992.\textsuperscript{20} The responsibilities passed down included management of social programs and part of the privatization effort. They amounted to some six percent of GDP in 1992.\textsuperscript{21} This tendency toward devolution can be found in government everywhere, and is clearly not unknown in the United States. But it was exacerbated by the reduction of revenues coming to the central government and the need to limit the deficit in the Russian Federation’s budget. Consequently, regional governments began to finance programs that the Center could not, keeping the delineation of expenditure responsibilities blurry.\textsuperscript{22} This devolution not only increased the power of regional governments, it also increased their need for tax revenue. The devolution also meant that the effectiveness of the economic reforms begun by the Center came to depend increasingly on the ability of the regions to manage social programs and to minimize the hardships the reforms produced.

Taxes were still collected locally as in the Soviet period and shared with the central government. This gave regional governments the opportunity to withhold revenues, an opportunity taken by several, particularly among the republics. Tatarstan and Bashkortostan both withheld all revenue from the central government. Sakha (Yakutia) withheld all revenue greater than the amount received back from the central government. By the end of August 1993, 30 out of 88 republics and regions had unilaterally decided to reduce their payments to the Center.\textsuperscript{23} Moreover, while an independent State Tax Service had been created, controlled by the Center, the regional and local tax officers, paid by the Center, had their housing and other benefits
provided by regional or local governments. This created a conflict of interest and the chance that they would carry out their duties to benefit regional and local officials. While the dual subordination of the tax service to central and subnational governments was ended de jure, a form of it was retained de facto.

Soon after the law On the Basic Principles of Taxation had been passed, it became clear that it could not be implemented. Tax revenues in the first quarter of 1992 were half the amount budgeted, largely owing to a shortfall in the revenues from the VAT. Quarterly budget laws were introduced instead. Under these laws, the major taxes—the VAT, the personal income tax, and the profit tax—continued to be shared, but the proportions of each tax given to the Center or the regions were changed. Whereas the revenue from the VAT was to have gone to the Center, it continued to be shared. The size of the shares was subject to bilateral bargaining between individual regions and the Center. The negotiated share of the regions ranged between 10 and 20 percent in 1992, with an average share for the regions of 14 percent in the first quarter, and 20 percent for the remainder of 1992. In the first quarter of 1993 the negotiated shares ranged between 20 and 55 percent. The personal income tax went entirely to the regions as planned under the Basic Principles law, but the profit tax was shared with the Center. Levied at a rate of 32 percent, only a little more than half of the profits tax, 17 percent, went to the regions in the first quarter, increasing to 19 percent for the rest of 1992 and 22 percent early in 1993. The predictability that the tax assignments proposed under the Basic Principles law would have provided was sacrificed.

The republics and regions ran budget surpluses throughout 1992, in contrast to the deficit ran by the central government. This was another reason why the Center devolved additional budgetary responsibilities onto subnational governments. Yet the existence of surpluses gives little indication about the adequacy of regional budgets; the surpluses shown in 1992 also reflected the legal need for subnational governments not to be in deficit. They were still in a race for additional revenue.

Subnational governments sought to increase revenue by charging additional taxes, but these yielded only small proportions of their budgets. They had two other sources. One was extrabudgetary funds. A law passed in April 1992 permitted the establishment of such funds by both the central government and subnational governments. These funds came at least in part from earmarked taxes. They were not included in the budget figures of any level of government. They came to include the Pension Fund, the Social Insurance Fund, the Employment Fund, the Road Fund, the Fund for the Social Support of the Population, and hundreds more at the federal and regional levels. Like additional regional and local taxes, these funds provide revenue that regional governments can acquire and spend with little oversight from the Center. Their contribution to the expenditures of regional governments appears to be somewhat larger than the additional taxes subnational governments were allowed to impose.

Another source of revenue, subsidies to the regions from the central
government, grew in importance after the collapse of the Soviet system. They came to make up more than half the budget of some regions.\textsuperscript{31} The ability of the central government to provide targeted subsidies to the regions for specific purposes was codified in early 1993 in the law On Subventions. It left the purpose and the amount of the subsidies to be negotiated, leaving them to be an important political resource for the Yeltsin government, as during the campaign preceding the referendum campaign in spring 1993. Subsidies and special considerations were also prominent when high officials of the central government, such as Prime Minister Chernomyrdin, visited the regions.\textsuperscript{32}

Regions often viewed subsidies as necessary to their fiscal health. Then-Finance Minister Boris Fyodorov estimated in June 1993 that 50 of Russia’s 89 regions and republics needed them.\textsuperscript{33} This was a sign that the distribution of budgetary responsibilities was not in line with the division of tax revenues. Needing revenue, the leaders of regions and republics went to Moscow to bargain for it with officials in the central government, just as they had in the Soviet era. But owing to the demise of central control and the growing antagonism and competition between president and Parliament, the regions and republics were not mere supplicants; they had political resources that they could bargain with.

In contrast to the fiscal relations between the Center and the regions envisioned under the law On Taxation of early 1992, by the middle of 1992 there was no clear delineation of the power to tax and of tax availability, expenditure responsibilities were muddied and changing, and subsidies were determined largely by bargaining. It was similar to the Soviet system, only the greater independence of regional governments, now subject to much less central control, and the general economic uncertainty made fiscal relations much more variable.

An important reason for maintaining such a system was precisely the bargaining that it allowed. The Center could use its abilities to change tax rates, to take on or devolve its financial responsibilities for programs, and to issue subsidies to reward or sanction the behavior of regions and republics. The regions and republics could bargain with the Center to gain resources. The resemblance of the system in place to the Soviet system also meant that all the actors, many of whom had been members of the old nomenklatura, could behave as they had in the Soviet era. A system in which bargaining had a smaller place and in which more tax and expenditure responsibilities were distributed according to law would have been foreign to them.

It often turned out, though, that the budgetary problems of the Center prevented it from delivering funds it promised and so added to the fiscal pressures faced by the regions and republics. For example, according to the chairman of the Buryat Republic’s Council of Ministers, the government issued a decree in March 1993 that would have provided the republic with 30 million rubles. Yet the republic had only received three million rubles as of July.\textsuperscript{34} Omsk Oblast suspended payments to the Center from the VAT and the profits tax in early September, complaining that the Center owed
it 86 million rubles but had allocated only 15 million.35 This inability to deliver weakened the effectiveness of subsidies as a source of reward or sanctions available to the Center.

The ease with which the regions and republics withheld their payments to the Center demonstrated the ineffectiveness of the Center in its fiscal relations with the subnational governments. A decree issued in October 1993 to get payment from delinquent regions shows which fiscal sanctions the Center believed it could wield against regions and republics.36 These included suspension of the subsidies given to enterprises and other institutions, cessation of deliveries of centralized outputs, reduction of state credits, and deductions from the accounts the regions and republics had in the Central Bank (accounts made necessary by the need to balance the budgets and the undeveloped state of the banking system). Yet as powerful as these sanctions might appear, they had little effect before the end of 1993; in early 1994 regions were again threatening to withhold payments from the Center.37

An alternative model for dealing with the problem based on bargaining rather than pure coercion was suggested by an agreement reached with Sakha (Yakutia) the same month. Under it, the republic will retain all its taxes for 1994, but will finance both regional and federal programs from its own budget.38

The ability of the president to appoint and dismiss the heads of administration of most regions has been a more effective source of rewards and sanctions than its controls over fiscal policy. During the crisis that followed the issue of the decree to dissolve the Parliament in September 1993, most heads of administration supported the president, in contrast to most soviets. Those that did not were soon sacked.

But even this control over the executive branches of the regions faced limitations similar to those that colonial administrations came to face in their control over local officials.39 The administrators faced pressure not only from those above them in their hierarchy, but also from political forces in the society in which they worked and from their peers within the bureaucracy. Weighing these with consideration of their own political survival, they often failed to implement the policies as the Center desired.

The heads of administration are not bureaucrats as colonial officials were, but their situation is analogous. Where the colonial official had to deal with local strongmen, the head of administration has had to deal with the local legislature with its independent source of authority stemming from elections. Supervision of colonial officials was impossible given the poor communications of the time. Supervision of the heads of administration in Russia has for the most part been ineffective; penalties have not often been issued for ignoring government decrees.40 The growth of inter-regional
associations acting independently of central control in which the heads of administration are prominent suggests that the pressures among them to serve the needs of each other’s regions can be significant. The result has been that the heads of administration have sometimes “gone native,” so that they have come to look after the interests of the region before those of the Center. They have sometimes been forced into a stalemate with the regional legislatures. The presidential representatives, with small staffs and no resources to control, have usually been ineffective as agents of the Center.

Moreover, some regional heads of administration are acquiring their own base of authority. Eduard Rossel was head of administration in Sverdlovsk Oblast until Yeltsin dismissed him in November 1993. He supported the president in his battle with the Parliament and was able to bring along the oblast soviet. He was dismissed because he also supported and even led, the effort of the oblast to become the Urals Republic, a step bitterly opposed by Yeltsin and the central government. This by no means meant the end of his political career: he had been a popular governor and his popularity carried over. The day after he was fired, a meeting of an association of six regions and two republics in the Urals elected Rossel its chairman. A month later he was elected to the Council of the Federation, winning 60 percent of the vote. In the spring, having been elected to the duma of the Sverdlovsk Oblast, he was elected its chairman.

The growing authority of regional administrators appears to have weakened the power of the Center over the republics. Moreover, relations with the republics suffered after it became clear that the virus carried by the symbols of nationalism did not stop at the borders of Russia. Some of the republics within Russia, formed as they were on the basis of an ethnic group, began to oppose Yeltsin and the central government well before the end of 1991 and the final collapse of the Soviet Union. The soviet of the Komi Republic (Komimu) declared in October that it could veto the decisions of the presidents of both the Soviet Union and of Russia. In Chechenia, which was not recognized as independent of Ingushetia, General Dzokhar Dudaev overthrew the joint Chechen-Ingush government and was then elected president of Chechenia. Yeltsin declared a state of emergency in the republic, but the conflict has continued, complicated by Ingush demands for both autonomy and land in neighboring North Ossetia. By the time Yeltsin dissolved the Russian Supreme Soviet, seven of the 21 republics had declared that their constitutions took precedence over the federal Constitution and reserved the right of secession.

Tatarstan, because of its location in the center and its production of oil, presented the most important challenge by a republic to the Russian Center.
It can be used as an example of the Center's weakness in its relations with the republics, particularly if the harsh treatment of Sverdlovsk Oblast following the declaration of the Urals Republic is kept in mind. Nationalist feelings have run high in the republic and a significant proportion of the elite has called for independence from the Russian Federation. Its president, Mintimer Shaimiyev, has had to steer a course that allowed him to retain the symbols of Tatar nationhood but recognized the reality of Tatarstan's geographical location and economic dependency on the surrounding Russian Federation. He has challenged the Center openly and often. Tatarstan refused payment of tax receipts, failed to sign the Federation Treaty in March 1992 and held a referendum on independence the same month. At Shaimiyev's urging, Tatarstan failed to take part in both the April 1993 referendum and the December 1993 elections and referendum. Shaimiyev's goal has been to increase the autonomy of the republic, particularly in fiscal matters, and to enter the Russian Federation through a bilateral treaty. He has sought and seems to have won a "mutual delegation of powers" by bargaining with the Center.

The symbols of nationalism resonate loudly among the Tatars and other minority nationalities in Russia, particularly in Chechenia and elsewhere in the northern Caucasus, but by and large they have had little impact on the Center's relationship with the regions and republics. Significantly, Yeltsin has not been able to dress himself in the mantle of Russian nationalism and use it as a mobilizing force either to push forward his economic program or to prevent moves toward greater autonomy by regions such as Sverdlovsk and Vologda, despite some concern that they are leading Russia down the same path toward dissolution that the Soviet Union followed. The symbols of national identity are becoming powerful in Russia's relations with the outside world, but have as yet had little effect on policy within the country's borders. No substitute has been found for the symbols of the Soviet state as a mobilizing force throughout Russia.

The conflict between the president and the Supreme Soviet had significant effects by reducing the effectiveness of the president in his relations with regions and republics. As both Yeltsin and Supreme Soviet Chairman Ruslan Khasbulatov sought to gain their support, the regions and republics came to be seen as balancing forces in the struggle for political supremacy in Russia. They gained in importance. This became especially clear in the months after the 25 April referendum, as president and Parliament were both trying to ensure that the constitution that would replace the 1978 Constitution made their branch of government dominant. In the spring Yeltsin brought representatives of the regions and republics into the Constitutional Convention and increased both the political and
economic autonomy of the subnational governments in the draft that was discussed. Later in the summer he sought to create a Council of the Federation, composed of representatives of both the executive and legislative branches of the regions and republics, that would be more than just an advisory group and could even form the upper house of a new parliament. His disappointment at the unwillingness of the regional and republic leaders to make themselves into a legislative organ counterpoised to the Supreme Soviet led Yeltsin to dissolve the Supreme Soviet and the Congress of People's Deputies three days after they met.

Following the president's victory over the Parliament in October 1993, Yeltsin acted quickly to consolidate that victory in the regions and, less forcefully, in the republics. He wanted to ensure that a concerted opposition to the Center could not arise from the regions and republics. He forced the dissolution of many of the regional soviets, most of which had sided with the Parliament in September. He decreed the election of new, smaller regional legislatures. He increased the powers of the heads of administration of the regions at the expense of the legislatures and decreed that they could only be appointed or dismissed by the president. This strengthened his control and restored to him a right taken by the Congress of People's Deputies in March. He dismissed those regional heads of administration who had opposed him and favored the Parliament. Before dissolving Parliament, Yeltsin had considered forming the upper house of the new legislature from the leaders of the regions, who would have gained their membership as a kind of perquisite of their position. But after the October events he decided to have the new Council of the Federation elected, cutting the direct tie with the current regional governments. The new Constitution does not include the Federation Treaty, which codified the position of the regions and republics in the federation. Its status is uncertain.

These actions were a forceful demonstration of the extensive power of the Center in Russian politics. With them ended a period in which the regions and republics acted with some unity on the national stage. Nonetheless, Yeltsin's moves may have the long-term effect of reducing the effectiveness of the Center and strengthening the ability of the regions and republics to pursue their own policies in opposition to those of the Center. The new, smaller legislative bodies, which have a higher proportion of full-time legislators than their predecessors, may be better able to effect policy within their regions, and so may be more effective in opposition. Changing the names of the legislative bodies from the discredited "soviet" (Russian for "council") and holding new elections may enhance their authority. Similarly, the more than 40 regional heads of administration who were elected to the new Council of the Federation now have a source of authority separate from that of the president. And they, along with the other leaders of both executive and legislative branches of regional governments, can be a formidable bloc within the Council of the Federation. They will have at least a forum in Moscow and may be able to exercise real influence on the executive branch in the central government as members of the legislature.
Conclusions

There can be no doubt that the regions and republics of Russia have greater autonomy now than they did under the Soviet system. The need for information created holes in the web of centralized control in the Soviet period and thus created a certain amount of autonomy for regional and local officials. The growing complexity of the Russian economy as it becomes increasingly market-oriented will make some decentralization of both the economy and government necessary, particularly given the inadequacy of the central information-gathering institutions. At least some within Yeltsin’s government recognize that a decentralized, federal system of government in Russia is desirable.

The regions and republics have been able to oppose the Center for a variety of reasons. The rewards and sanctions available to the Center have been reduced since the collapse of the Soviet Union as the Party hierarchy and the planned economy have both disappeared. The collapse of the Soviet Union left a symbolic void in Russia, making it difficult for the Center to mobilize people into active support of its policies. The need for decentralization has been recognized by the Center and turned partially into policy. The needs of Parliament and president for support in their duel with each other strengthened the position of the regions and republics. The failure to transform intergovernmental fiscal relations allowed extensive bilateral bargaining in which subnational governments were not necessarily at a disadvantage.

The returns from recent regional elections suggest that the newly elected legislatures may, like their predecessors, be conservative and inclined to oppose economic reforms favored by the Center. The ineffectiveness the Center has shown in using the resources of power at its disposal to quell signs of opposition from regions and republics suggests that such opposition may be effective, particularly if the heads of administration the Center appoints are co-opted. Just as Tatarstan signed a treaty with the Center, other republics may seek special advantage through treaties of their own. Indeed, a set of agreements with Bashkortostan signed in May suggest that the Tatarstan model may be applied more generally in relations between the Center and recalcitrant republics. Regions may follow Sverdlovsk and seek changes in their status and special treatment in their relations with the Center.

Other forces at work will also influence the approach the regions and republics take to economic reform. First, few in Russia are completely opposed to economic reform. Objections to it usually refer only to the pace of reform and to aspects such as the form of privatization. Much of what economic reform means—for example, tight budget constraints for firms and governments, and economic competition in many sectors of the economy—is
largely controlled by the Center, not the regions. Regional and republican governments can slow the growth of competition, but if it is fostered in some regions and if the Center allows foreign firms to compete for Russian markets through imports or investment, regional and republican governments will have to respond at the least by improving the competitiveness of their own firms. Such improvements are a large part of what economic reform is about.

Tight budget constraints create economic pressure that can force subnational governments to rely on their own means and not on subsidies. Under this pressure, regional and republican governments must act autonomously of the Center, regardless of their political orientation. Indeed, the budget constraint on the central government forces an increase in the autonomy of the regions and republics by decreasing the amount available for subsidies.

A tight budget constraint for the regions and republics would be achieved more easily if the Center clearly delineated the power to tax, tax availability, and expenditure responsibilities that it proposed and, especially, if it regularized and reduced the distribution of subsidies. Such constraints would make it easier to resist pleas from leaders of republics and regions and their allies in the Federal Assembly (the new full federal Parliament) for special dispensation. It would also make it easier for the Center to balance its own budget and to stabilize the country's money supply. But this would mean a reduction in the amount of bargaining in the system. The Center would lose a tool for rewarding or punishing regions and republics; the regions and republics would lose at least the ability to influence the Center to provide special privileges. These are high prices for these policy-makers to pay, and they are unlikely to be paid as long as policy-makers in the central government believe that the political system and their place in it are unstable.

Paradoxically, conservative regional governments, if they are dedicated to maintaining a government-managed social safety net and have administrative experience gained in their nomenklatura past, may actually prove more effective at maintaining that safety net than reformists would be. This could actually strengthen the ability of the Center to conduct economic reform.

There can be little doubt, however, that economic reform would benefit overall if reformist governments were installed in most regions and republics. Yet this is unlikely to happen. It can be assumed that the faster the central government tries to push economic reform, the more opposition it will get from subnational governments; the regions and republics are likely to diminish significantly the effectiveness of a central government dedicated to rapid, radical economic reform.

The roles of the regions and republics in political reform are a mixed bag
and something of a dilemma, one not new to Russian politics. The opposition shown by subnational governments to decrees from the Center is itself a sign of a developing pluralism, especially when it is affirmed by voters. After all, new regional legislatures, even those resistant to reform, are being elected. On the other hand, it seems likely that political parties will have a difficult time developing in regions and republics where they are in opposition. And the possibilities for rigged voting and other corruptions of democracy characteristic of Chicago-style machine politics are all too plentiful in many regions and republics of Russia.52

Given the results of the recent elections and the continuing uncertainties of the political environment, it can be expected that the central government will be slow to give up the power that comes from the ability to appoint and dismiss the regional heads of administration. Democratic reform will be ill-served by this.

"Reform in a federal Russia is destined to be a messy business."

The Constitution approved in the December 1993 referendum is silent on the method by which the Council of the Federation is chosen. Should the new legislatures of the regions and republics effectively oppose the political and economic policies of the Center and should the political atmosphere seem to favor opposition candidates, the Center might seek some way of selecting the upper house other than through elections, one that favors the appointed heads of administration.

Whatever effects the regions and republics taken as a whole have on economic and political reform, the effects will differ with each one taken individually. Whatever progress is made will be spotty—rapid in a region like the Nizhny Novgorod Oblast, slow in a region like Khabarovsk Krai. That is the nature of the autonomy that the regions and republics have acquired. Reform in a federal Russia is destined to be a messy business. As yet, neither euphoria nor despair is warranted.

Notes


3 Jeffrey Hahn shows that the deputies to local soviets were more responsive to public concerns than has often been assumed. Hahn, Soviet Grassroots: Citizen Participation in Local Soviet Government (Princeton, N.J.: Princeton University Press, 1988). Migdal suggested this point in his discussion of policy implementation in the Third World (Migdal, Strong Societies... pp. 248-249).


5 There was also an earlier experiment in competitive elections to local soviets in 1987 that involved less than five percent of the deputies elected. Hahn, p. 78.
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7 Yeltsin invited the autonomous republics to declare their sovereignty on a trip to the Volga region and Siberia in August 1990, before the declarations had been made.


19 Commander and Jackman, Providing Social Benefits in Russia, p. 16.


25 Wallich, Fiscal Decentralization, p. 32.


29 See the figures given for Novosibirsk Oblast in Sovetskaya Sibir, 9 April 1993, translated in FBIS Report, FBIS-USR-93-068, 1 June 1993, pp. 59-60. Also see Mitchneck, “The Local Budget in the Changing Role of Municipal Government,” p. 11.


31 Oxana Dmitrieva, “Political Games Around the Budget,” Moscow News, No. 28, 9 July

32 INTERFAX, 30 June 1993.


INTERFAX, in FBIS, Daily Report, FBIS-SOV-93-206, 27 October 1993, p. 47. Also see Kommersant-Daily, 29 October 1993, translated in FBIS, Daily Report, FBIS-SOV-93-210, 2 November 1993, pp. 53-54, which describes the agreement as a reward for loyal behavior by the president of Sakha, Mikhail Nikolaev, who was the only leader of a region or republic to negotiate with the Parliament for Yeltsin.


36 INTERFAX, in FBIS, Daily Report, FBIS-SOV-93-206, 27 October 1993, p. 47. Also see Kommersant-Daily, 29 October 1993, translated in FBIS, Daily Report, FBIS-SOV-93-210, 2 November 1993, pp. 53-54, which describes the agreement as a reward for loyal behavior by the president of Sakha, Mikhail Nikolaev, who was the only leader of a region or republic to negotiate with the Parliament for Yeltsin.

37 See the interview with the head of the Treasury, Alexander Smirnov, in Rossiiskaya Gazeta, translated in FBIS, Daily Report, FBIS-SOV-93-167, 31 August 1993, p. 34.

38 INTERFAX, in FBIS, Daily Report, FBIS-SOV-93-206, 27 October 1993, p. 47. Also see Kommersant-Daily, 29 October 1993, translated in FBIS, Daily Report, FBIS-SOV-93-210, 2 November 1993, pp. 53-54, which describes the agreement as a reward for loyal behavior by the president of Sakha, Mikhail Nikolaev, who was the only leader of a region or republic to negotiate with the Parliament for Yeltsin.

39 Migdal, pp. 238-258.

40 In August 1993, Chernomyrdin said: "... if every time I had to go and listen and find out why edicts and directives signed by me are not being carried out, I would have to be constantly travelling." Sakhalin Television Network, transcribed and translated in FBIS, Daily Report, FBIS-SOV-93-167, 31 August 1993, p. 34.

41 Hansen, pp. 28-37.


50 According to Deputy Finance Minister Sergei Alexashenko "... the statistical and accounting system today cannot give a precise figure for the tax shortfall. ... Incidentally, we still do not have information on who is not paying taxes." Rossiiskaya Gazeta, 17 September 1993, translated in FBIS, Daily Report, FBIS-SOV-93-182, 22 September 1993, p. 18.

51 Deputy Prime Minister Sergei Shakhrai is prominent among those who share this belief. Also see the “Draft Program on Socioeconomic Policy Forecast for 1993-1994,” in Delovoy Mir, translated in FBIS-Report, FBIS-USR-93-150, 25 November 1993, pp. 6-29, especially pp. 7, 10, and 25-27.