

AGENCY MATTERS: THE FAILURE OF RUSSIAN REGIONAL POLICY REFORMS

ANDREY STARODUBTSEV
UNIVERSITY OF HELSINKI

Abstract: This article analyzes the political reasons for Russia's failure to define and implement a coherent regional policy during the 2000s. Combining John Kingdon's "multiple stream" framework and empirical evidence from Russian regional policy, I conclude that this failure resulted from the inability of administratively and politically weak reformers to resist top officials who consider regional development a secondary priority and pressure groups that are interested in maintaining the status quo.

Russia today suffers from a difficult Soviet legacy: social and economic inequalities among and between regions, the dispersed and often economically unfounded locations of cities and towns, and the ineffective resettlement of populations across the country.¹ In the face of this situation, Russia's leaders have not been able to implement a coherent regional policy that would bring together a set of governmental measures aimed at a balanced and sustainable social and economic development of the country's regions.

During his first term as president between 2000 and 2004, Vladimir Putin adopted a set of important, yet unpopular, policy changes.² But regional policy was not included in the list of those reforms. The 2008–2010 financial and economic crisis gave the Russian authorities a

¹ This article is a part of the Center of Excellence "Choices of Russian Modernization," funded by the Academy of Finland.

² Linda Cook. 2007. *Post-Communist Welfare States: Reform Politics in Russia and Eastern Europe*. Ithaca, NY: Cornell University Press; Susanne Wengle and Michael Rassel. 2008. "The Monetization of I'goty: Changing Patterns of Welfare Politics and Provision in Russia." *Europe-Asia Studies* 60: 5 (July): 739 – 756.

Andrey Starodubtsev is post-doctoral researcher, Aleksanteri Institute, P.O. Box 42 (Unioninkatu 33) FI-00014 University of Helsinki, Finland (andrey.starodubtsev@helsinki.fi).

unique opportunity to help the most developed regions “break away and strengthen their competitive advantages, including institutional ones.”³ However Russia’s central government has still not begun a full-scale reform of regional policy, even though there is demand for such a policy from below.

This article poses the question: Why has Russia failed to reform its policies to overcome the Soviet legacy at the subnational level? The existing academic research on both Russian policies during the 2000s and the dynamics of Russian regions does not provide an answer. The works examining federal reform policies focus on the programs that were initiated and subsequently either succeeded or failed.⁴ Studies of the regions themselves concentrate on other issues of sub-national governance. In the 1990s, scholars analyzed models and practices of political relationships between the central and regional governments, including the distribution of power and resources. The political and economic centralizations of the 2000s forced scholars to focus more fully on the role of the federal government since it was the clear driver of change.⁵ In these analyses, political factors prevented stable, long-lasting and effective policy-making.⁶ Political scientists and economists often examine and recognize the influence of electoral politics and its outcomes on fiscal federalism in Russia.⁷ Finally, the territorial dimension is covered by scholars who assess the impact of

³ Natalia Zubarevich. 2010. *Regiony Rossii: Neravenstvo, Krizis, Modernizatsiya*. Moscow: Independent Institute for Social Policy, p. 124.

⁴ Brian Taylor. 2014. “The Police Reform in Russia: Policy Process in a Hybrid Regime,” *Post-Soviet Affairs* 30: 2-3: 226–255; Anastassia Alexandrova and Raymond Stryuk. 2007. “Reform of In-Kind Benefits in Russia: High Cost for a Small Gain.” *Journal of European Social Policy* 17: 2: 153-166; Anders Aslund. 2007. *Russia’s Capitalist Revolution: Why Market Reforms Succeeded and Democracy Failed*. Washington, DC: Peterson Institute for International Economics.

⁵ Kathryn Stoner-Weiss. 1999. “Central Weakness and Provincial Autonomy: Observations on the Devolution Process in Russia.” *Post-Soviet Affairs* 15: 1: 87 – 106; Peter Reddaway and Robert W. Orttung (eds.) 2005. *The Dynamics of Russian Politics: Putin’s Reform of Federal-Regional Relations*. Vol. 2. Lanham, MD: Rowman & Littlefield Publishers; Gulnaz Sharafutdinova. 2010. “Subnational Governance in Russia: How Putin Changed the Contract with His Agents and the Problems It Created for Medvedev.” *Publius-the Journal of Federalism* 40:4: 672 – 696.

⁶ Zubarevich. 2010. *Regiony Rossii...*; Olga Kuznetsova. 2005. “Regional’naya Politika v Rossii v Postsovetskoe Vremya: Istoriya Razvitiya.” *Obschestvennaya nauki i sovremennost’* 2: 67–77.

⁷ Daniel Treisman. 2001. *After the Deluge: Regional Crises and Political Consolidation in Russia*. Ann Arbor: University of Michigan Press; Vladimir Popov. 2004. “Fiscal Federalism in Russia: Rules versus Electoral Politics.” *Comparative Economic Studies* 46: 4: 515–541; Israel Marques, Eugenia Nazrullaeva, Andrei Yakovlev. 2012. “From Competition to Dominance: Political Determinations of Federal Transfers in Russian Federation.” Working Paper WP BRP 12/EC/2011. <http://publications.hse.ru/preprints/59052618>; Andrey Starodubtsev. 2014. *Platit’ Nel’zya Proigryvat’. Regional’naya Politika i Federalizm v Sovremennoy Rossii*. St. Petersburg: European University at St. Petersburg Press.

various reforms on social and economic developments in the regions.⁸ At the same time, the central government's regional policy and factors behind it remain under explored.

In this article I demonstrate that the political interests of the ruling federal elite hinder the reform of regional policy in Russia. Even during the biggest "window of opportunity," the federal government could not overcome its political conflicts with subnational elites.

The article is organized as follows. First, I use John Kingdon's "multiple streams" framework to identify the factors that promote or hinder a reform proposal in government. Second, I discuss the different models of regional policy and describe the various ideas for modernizing Russian territorial governance. Third, I examine the development of Russian regional policy during the 1990s and 2000s. Finally, I analyze the factors that prevented regional policy reform in the 2000s.

Why Reform's Time Has Not Come

Initially policy analysts and political scientists were limited to analyzing the quality of policy reforms after their implementation. Conclusions on success or failure could be drawn solely from a reform policy's results. This approach, based on Harold Lasswell and Gary Brewer's "stage heuristic" idea, only allows for the analysis of the few reforms that have actually been implemented; it does not consider those policy proposals (or alternatives⁹) that were formulated, yet never adopted.¹⁰ By contrast, a framework that focuses on policy reform approval or denial allows scholars to see the earlier stages of the policy cycle – invention, estimation and selection. The most influential theoretical approach for analyzing the policy process from this perspective was developed by John Kingdon, who asks, "How does an idea's time come?"¹¹

According to Kingdon's approach, there are two categories of factors that "might affect [the] setting and specification of alternatives." These are participants and processes. Participants (the president, the legislature, other public officials, bureaucrats, political parties, and pressure groups) can push or hinder proposed policy alternatives. Their interests and available

⁸ Leonid Fedorov. 2002. "Regional Inequality and Regional Polarization in Russia, 1990-99." *World Development* 30: 3 (March): 443-456; Thomas F. Remington. 2011. *The Politics of Inequality in Russia*. New York: Cambridge University Press.

⁹ An alternative for Kingdon is the option of solving existing problems. Usually, there are several possible ways to achieve the same policy goals. Policymakers choose their preferred one.

¹⁰ Harold D. Lasswell. 1971. *A Pre-View of Policy Sciences*. New York: American Elsevier; Garry D. Brewer. 1974. "The Policy Sciences Emerge: To Nurture and Structure a Discipline." *Policy Sciences* 5: 239-244. The term "stage heuristic" is used by Paul Sabatier. See Paul A. Sabatier 2007. "The Need for Better Theories." In Paul A. Sabatier, ed., *Theories of the Policy Process*. Boulder: Westview Press.

¹¹ John W Kingdon. 2003. *Agendas, Alternatives, and Public Policies*. New York : Longman.

resources define their choices and potential for turning certain alternatives into laws. The key factor defining a proposal's success is the administrative and political strength of the actors who try to promote an alternative. Such actors must be able to overcome veto players who can block various policy streams.¹² If the decision-making model involves many actors with opposing interests, and if the reform promoters do not have enough administrative and political resources, then policy change will most likely fail.

Processes can be described as the circumstances "by which agenda items and alternatives come into prominence."¹³ Kingdon identifies three main processes: problems, policies, and politics. Problems reflect the challenges that motivate authorities to seek out possible alternatives and change the current pattern of policy. Policies include "a process of gradual accumulation of knowledge and perspectives among the specialists in a given policy area, and the generation of policy proposal[s] by such specialists."¹⁴ Politics describes the influence of electoral politics, the mode of political struggle, and the relationships between influential political actors. As Kingdon notes, these three elements, or streams, can "serve as an impetus or as a constraint" on proposed policy measures.

Kingdon's main argument states that an idea's time comes when the appropriate policy window is open. Here, a policy window is a set of opportunities "for advocates of proposals to push their pet solutions or to push attention to their special problems."¹⁵ Indeed for Kingdon, the adoption of a particular alternative is the result of many fortunate circumstances where policy problems have demanded urgent governmental action and the political situation allows the proposal's advocates to adopt their own measure, but not any other.

By using Kingdon's framework, the basic obstacles that prevent the adoption of an alternative can be identified. The promotion of an idea demands that society, experts, and politicians all perceive a problem. Without this perception, policy-makers lack the motivation to change stable practices of governance, since potential changes would increase uncertainty in a particular policy field. At the level of the policy stream, the potential difficulties for promoting a policy change concern its technical feasibility and the potential constraints on the implementation of a measure. The political stream contains two potential obstacles. On the one hand, public opinion can reflect the electorate's disagreement with a proposed measure. As a result, policymakers will reject a plan of reforms because they fear losing votes in the next election. On the other hand,

¹² George Tsebelis. 2002. *Veto Players: How Political Institutions Work*. Princeton: Princeton University Press.

¹³ Kingdon, *Agendas...*, p. 15.

¹⁴ Kingdon, *Agendas...*, p. 17.

¹⁵ Kingdon, *Agendas...*, p. 165.

policy makers can stop the promotion of reform due to an unfavorable situation in the legislature. If the opposition controls a majority of the seats, it will be quite difficult to push a governmental alternative through the assembly. Thus, Kingdon's model allows one to formulate an analytical scheme for understanding the causes of success or failure of a reform (see Table 1). Kingdon elaborates on this using the United States as a basis, i.e. a democratic and pluralistic political system. This article suggests that it is possible to apply Kingdon's approach to systems with other sets of political institutions, especially an authoritarian state with a corporatist model of interest group representation and the existence of a long-term veto player, as in Russia.

Table 1. The Factors for a Reform's Success or Failure

Kingdon's Element	Success	Failure
Participants	A reform is proposed by politically or administratively strong actors or there are no influential opponents among participants	There are politically or administratively strong opponents among the participants of the policy process
Problems	Existence of reliable indicators and evidence of deep problems in a current policy	Absence of reliable indicators and evidence of deep problems in a current policy
Policy Solutions	Existence of tested and financially feasible solutions in a proposed policy program	Proposed measures are expensive and have ambiguous potential results
Politics	Proposed measures are popular among the majority of electorate. Reformers have the support of a parliamentary majority.	Public opinion reflects the electorate's disagreement with a proposed measure. An unfavorable situation prevails in the legislature.

The electoral authoritarianism that characterizes the Russian political regime combines a significant electoral process with the purposeful reduction of alternative actors.¹⁶ As a result, the electorate's satisfaction

¹⁶ Steven Levitsky and Lucan A. Way. 2010. *Competitive Authoritarianism: Hybrid Regimes After the Cold War*. New York: Cambridge University Press.

has remained a significant factor of policy making in Russia. At the same time, there are key differences from democratic practices in terms of both the set of actors who can push different policy alternatives and the way that these alternatives are ordered and selected. Brian Taylor illuminated this difference in his study of Medvedev's police reform.¹⁷ According to him, "in a competitive authoritarian regime, changes in policy preferences come not from electorate alteration or public pressure, but from changing circumstances and struggles within the executive branch."¹⁸ Other participants have to play their role in "politics as theater." But this important difference does not reduce the value of using Kingdon's framework to describe and explain policy processes in authoritarian systems.

What Does Regional Policy Reform Mean?

Regional policy is a rather loose term that describes governmental actions aimed at the economic and social development of territorially defined units at the subnational level. This is not a universally accepted definition, but in Russia (as in the European Union¹⁹) regional policy serves as a broad label for both intergovernmental fiscal relations and the territorial dimension of a state-led investment policy. The closest synonyms for "regional policy" are regional or territorial development when they fall under the context of a country's domestic policy. There is a difference between regional policy (including economic and financial relationships between the different levels of government) and political relationships between the central government (hereafter, the Center) and the regions. They coincide, however, with the distribution of powers between central and regional authorities, which is considered an important issue for both political and economic dimensions of state building.

For many years, the major goal of regional policy in Russia and elsewhere was the improvement of welfare in underdeveloped areas. A key instrument in approaching this goal is the redistribution of resources from more developed areas. This policy strategy has become the clear and expected solution to the well-known, equity-efficiency dilemma from public economics.²⁰ While its resources are strictly limited, a state must choose between social and economic equalization (i.e. investing resources to support those areas which do not have opportunities to

¹⁷ Brian Taylor. 2013. "Police Reform in Russia: The Police Process in a Hybrid Regime." *Post-Soviet Affairs* 30: 2–3: 226–255.

¹⁸ Brian Taylor. 2013. "Police Reform in Russia: The Police Process in a Hybrid Regime." p. 23.

¹⁹ See: Regional Policy—Inforegio, *European Commission*, http://ec.europa.eu/regional_policy/index_en.cfm.

²⁰ Arthur Melvin Okun. 1975. *Equality and Efficiency: The Big Tradeoff*. Washington D.C.: Brookings Institution Press.

develop themselves) and providing for the effectiveness of the country as a whole. From this perspective, regional policy implementation has been seen as a function of reducing the socio-economic inequality in regional development, not only compensating for the difference between current expenditure commitments and collected regional budget revenues, but providing comprehensive support in investments.

At the ideological and political levels, this idea supports the principles of justice and equality. Each and every citizen of a country, according to these principles, has a right to the same socio-economic opportunities. This means that the task of the central authorities is to provide the appropriate equal conditions for its citizens if the free market and private business cannot manage (or even threaten) this equality.

Experts in regional policy and intergovernmental relations note that a full-scale policy of equalization demands enormous resources. If a region had been attractive to investors, private companies would have already established a visible presence there. The economically weak regions have a set of problems that need special and costly measures to move production into these areas. Examples of this policy show that only well-developed and prosperous states have enough resources to implement this strategy. Unfortunately, even in these instances the policy outcomes will be quite undesirable. The most famous example of implementing this strategy has been the European Union, which has invested significant funding in the economic development of poor countries and regions. It has made such efforts in the framework of cohesion and structural policies. The results show little effectiveness from direct intervention seeking to improve economic performance in these areas.²¹ The 2009 World Development Report, a document that reflects the basic arguments of advocates for a change in the model of regional development, notes

A generation of economic research confirms this: there is no good reason to expect economic growth to spread smoothly across space. The experience of successful developers shows that production becomes more concentrated spatially. The most successful nations also institute policies that make basic living standards more uniform across space. Economic production concentrates, while living standards converge.²²

²¹ *World Development Report 2009. Reshaping Economic Geography*. Washington: World Bank. p. 237. The same position is defended in Natalia Zubarevich, *Regiony Rossii...*, p. 125–126 and Andres Rodriguez-Poze, Ugo Fratesi. 2004. “Between Development and Social Policies: The Impact of the European Structural Funds in Objective 1 Regions.” *Regional Studies* 38: 1: 97–113.

²² *World Development Report 2009. Reshaping Economic Geography*. Washington: World Bank.

This strategy of regional policy implies an institutional and infrastructural integration of developed and underdeveloped areas. Such integration includes cross-regional equalization of living standards, providing educational, transportation and communication projects to the least developed regions and concentrating production in areas with the most potential. This approach satisfies the Kaldor–Hicks criteria. That is, it forms a situation in which more developed regions demonstrate high economic achievement. Their economic development is enough to help less developed regions but they still remain rich and prosperous.

In this respect, the modernization of regional policy means the formation of a united system of public administration aimed at developing existing territorial poles of economic growth and the integration of economic and social spaces around them. This policy includes removing less developed areas from prevailing financial support of the central government, the establishment of institutional and infrastructural conditions to promote interregional mobility, and the coordination of financial, economic and administrative capabilities of the central state to achieve the goals of regional development.

How Does Russia Do Regional Policy?

Throughout the 1990s and 2000s, Russia's regional policy has been influenced by the political struggle at the federal level and relations between the Center and the regions. In 1992–3, the Russian government needed regional support to win its political battle with the Russian parliament. After that, the regional authorities became supporters in gaining control over separatist movements in the ethnic republics. Finally, without the governors' assistance, Boris Yeltsin could not have won the 1996 presidential elections.²³

To achieve regional loyalty, the federal government paid a high price. After 1992, when the Russian Federation became a sovereign state, the Kremlin elaborated different mechanisms for providing central financial support to the regions. However, the political weakness of the federal Center resulted in a high level of regional politicization.

First, despite the constitutionally fixed redistribution of powers between Center and the regions, the leaders of Russia's economically and politically strong regions succeeded in revising the rules of the game. Most importantly, they forced the Center to sign bilateral treaties with regional governments. All these treaties and the majority of regional constitutions included statements which contradicted federal laws.²⁴ In the economic

²³ Stoner-Weiss. "Central Weakness and Provincial Autonomy."

²⁴ Taras Rabko et al. 2001. *Dogovory mezhdu Rossiiskoi Federatsiei i eje Sub'ektami: Problemy i Perspektivy*. Moscow: Moscow State University.

arena, regional governments set trade barriers and controlled prices to protect regional economies and companies. As a result, Russia did not have a unified legal, economic, and political space until at least 1998.

Second, besides allowing the unconstitutional redistribution of federal powers favoring the strongest regions, the Center resorted to the use of fiscal federalism and its mechanisms to both thank Yeltsin's supporters and appease opponents, and committed itself to non-intervention in the internal political struggles in the regions.²⁵ As a result, the federal government could not even provide equalization of living standards. The newly created mechanisms of federal financial assistance (mainly the Fund for Financial Support of the Regions) managed to supply the most urgent help to regional budgets. But these financial distributions were shaped by strong political pressure.²⁶ Indeed, there was no regional policy that represented an independent and thoughtful direction of governance during this period of Russian history.

The strengthening of the central government since 1999 changed this situation. Vladimir Putin, who became prime minister in August 1999 and later Boris Yeltsin's successor as president, succeeded in consolidating a wide circle of Russian politicians, intellectuals and activists.²⁷ He fought his first political struggle against regional elites who challenged the federal authority during the 1999 parliamentary elections. With Putin's support, the pro-federal political coalition Unity managed to defeat the coalition of regional leaders, Fatherland–All Russia. At the same time, the Center demonstrated its own readiness to protect the integrity of Russian territory when it initiated full-scale military operations in the Northern Caucasus.

Given this tendency, it is no wonder Putin's first reform was meant to both bring regional laws into conformity with the Russian Constitution and weaken the political significance of the governors. Initially, Putin's federal reform divided the entire country into seven federal districts and reassigned the regional prosecutors and territorial branches of numerous federal agencies to the control of presidential representatives in these districts.²⁸ This redistribution of power allowed for a major revision of

²⁵ Daniel Treisman. 2001. *After the Deluge: Regional Crises and Political Consolidation in Russia*. University of Michigan Press; Vladimir Popov. 2004. "Fiscal Federalism in Russia: Rules versus Electoral Politics." *Comparative Economic Studies* 46: 4: 515–541; Vladimir Gel'man, Sergey Ryzhenkov, Michael Brie. 2003. *Making and Breaking Democratic Transition: The Comparative Politics of Russia's Regions*. Lanham, MD: Rowman and Littlefield.

²⁶ Daniel Treisman. 2001. *After the Deluge...*

²⁷ Peter Rutland. 2000. "Putin's Path to Power." *Post-Soviet Affairs* 16: 4: 313–354.

²⁸ Nikolai Petrov. 2005. "How Have the Presidential Envoys Changed the Administrative-Political Balance of Putin's Regime?" *The Dynamics of Russian Politics. Putin's Reform of Federal-Regional Relations*. Ed. by Peter Reddaway and Robert W. Ortung. Vol. 2. Lanham: Rowman & Littlefield Publishers, Inc. p. 33 – 64; Brian Taylor. 2011. *State Building in Putin's Russia: Policing and Coercion After Communism*. NY: Cambridge University Press.

regional laws in order to ensure compliance with federal legislation in a relatively short period. Next, Putin changed the mode of forming the upper chamber of the legislature, the Federation Council. In the 1990s, its constitutional status was strengthened by the *ex officio* presence of regional governors and speakers of regional legislatures. Replacing the politically strong governors with their nominal representatives dramatically decreased the Federation Council's influence over Russian politics.²⁹ Finally, Putin endorsed a law allowing the Russian president to dismiss regional governors and dissolve regional assemblies if a court finds that they have violated federal laws. Consequently, regional elites lost influence on Russian politics nationwide, but preserved their control of politics within their respective regions. To this end, the Center abolished popular gubernatorial elections in 2005;³⁰ instead, regional assemblies appointed candidates who were subsequently approved by the president. On the one hand, these reforms led to a strengthening of the Center's powers and preserved the country's unity after a long period of centrifugal processes. On the other, they set up a *de facto* unitary system of territorial governance without any special representation of diverse regional interests.

Besides the political context, the financial and economic conditions of the 2000s changed significantly. Coupled with the favorable dynamics of global oil prices, effective budgetary and tax reforms increased the federal budget's revenues.³¹ Since 1999 the government has turned to changing the patterns of intergovernmental relations; it strengthened "budget discipline" and centralized intergovernmental financial flows (Table 2 shows the dynamics of federal and regional shares of budget revenues in the 1990s and 2000s). These measures allowed for the diversification of financial assistance mechanisms available to regional budgets. Since 2000, redistribution of assignments from the Fund for the Financial Support of the Regions has become more transparent, better-run and non-politicized. In addition, several new federal funds were established – the Fund for Compensations, the Fund for Co-Financing of Social Expenditures, the Fund for Reforming Regional and Local Finances, and the Fund for Regional Development.

²⁹ Darrell Slider. 2005. "The Region's Impact on Federal Policy: The Federation Council." *The Dynamics of Russian Politics. Putin's Reform of Federal-Regional Relations*. Ed. by Peter Reddaway and Robert W. Orttung. Vol. 2. Lanham: Rowman & Littlefield Publishers, p. 123–143.

³⁰ Grigorii Golosov. 2011. "The Regional Roots of Electoral Authoritarianism in Russia." *Europe-Asia Studies* 63: 4: 623–639.

³¹ Andrei Zastrovtsev. 2010. "Oil Boom and Government Finance in Russia: Stabilization Fund and Its Fate." *Resource Curse and Post-Soviet Eurasia: Oil, Gas, and Modernization*. Lanham (MD): Lexington Books; Vladimir Nozarov. 2011. "Nalogovaya Sistema Rossii v 1991–2008 godakh." *Istoriya Novoi Rossii. Ocherki, Interv'iu* [History of New Russia. Essays, Interview], v. 1. St. Petersburg: Norma. P. 449–516.

Table 2. Federal and Regional Shares of the Budget Revenues in Russia in 1992–1999 and 2003–2011

Year	Federal share (%)	Regional share (%)
1992	60.3	39.7
1993	45.6	54.4
1994	48.3	51.7
1995	48.0	52.0
1996	49.0	51.0
1997	47.0	53.0
1998	44.0	56.0
1999	51.0	49.0
2003	64.1	35.9
2004	63.8	36.2
2005	67.4	32.6
2006	62.7	37.3
2007	60.0	40.0
2008	64.7	35.3
2009	60.7	39.2
2010	53.7	46.3
2011	61.3	38.7

Source: Rodin J. Rethinking Russian Federalism. The Politics of Intergovernmental Relations and Federal Reforms at the Turn of the Millennium. Unpublished dissertation. Stockholm, 2006. p. 166 (for 1992–1999); author's calculations on the basis of the Federal Treasury's data (<http://www.roskazna.ru/>).

One positive consequence of these changes is a more transparent allocation of funds as compared to a system that distributes transfers through a single federal fund tasked with performing multiple functions simultaneously. Financial centralization, however, has led to an increase in the number and volume of federal transfers to the regions. Between 2008 and 2012 the federal government used nearly one hundred budget transfers to redistribute more than one billion rubles for financial assistance to the regions. At the same time, the most transparent Fund for the Financial Support of the Region has seen its share of transfers decrease.³²

³² Ilia Sokolov. 2011. "Budzhethnaya Sistema Novoi Rossii." In Petr Filippov, ed., *Istoriya Novoi Rossii. Ocherki, Interv'iu* [History of New Russia. Essays, Interview], v. 1. St. Petersburg: Norma. P. 551; Natalia Zubarevich. 2011. "Vmesto Samostoitel'nosti Regionam Dali Pravo Soderzhat' Chinovnikov." *Forbes.ru*, <http://www.forbes.ru/sobytiya-column/>

Political stabilization, new institutional arrangements and the turning of governors into *de facto* federal appointees did not dampen the political influence on intergovernmental relations. Instead, the political and economic aspects of regional policy have had to obey the logic of the “political business cycle”³³ and the dynamics of political uncertainty in Russia.³⁴

The Ministry of Economic Development determined the investment portion of Russia’s regional policy. The key measure defining the federal investment policy framework was the establishment of “special economic zones,” or territories that benefitted from special privileges in conducting business. Usually companies resident in these territories received preferential taxation and customs treatment and simplified licensing. The goal of establishing such zones was the “[development] of manufacturing plants, high-tech industries, tourist and healthcare sectors, port and transportation infrastructure, technology development, and the commercialization of scientific discoveries.”³⁵ This statement does not give this measure a sense of regional policy since it concentrates on economic, not territorial, goals. However, the placement of these zones within the boundaries of particular regions allows scholars to analyze their creation as a component of regional development policy. The selection process identifying territories for future special economic zones begs the question of regional development priorities. The placement of these zones throughout the country has demonstrated the lack of clear criteria and opaque decision-making. In fact, the industrial and technology development zones were predominantly (but not exclusively) arranged in more developed regions (Moscow and Moscow region, St. Petersburg, Lipetsk and Tomsk regions, and Tatarstan), whereas tourist and port zones were initiated in both the most and the least developed areas (see Table 3).

finansy/78058-vmesto-samostoyatelnosti-regionam-dali-pravo-soderzhat-chinovnikov, accessed May 2, 2014.

³³ William D. Nordhaus. 1975. “The Political Business Cycle.” *Review of Economic Studies* 42: 2: 169–190.

³⁴ Andrey Starodubtsev. 2014. *Platit' Nel'zya Proigryvat'...*

³⁵ Federal law, June, 22, 2005, № 116-FZ “On special economic zones in the Russian Federation,” <http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=142952>; accessed January 4, 2014.

Table 3. Special Economic Zones in Russia

Types of Zones	Name and Location	Year of Creation
Industrial and manufacturing zones	“Lipetsk,” Lipetsk region	2005
	“Alabuga,” Republic of Tatarstan	2005
	“Togliatti,” Samara region	2010
	“Titanium valley,” Sverdlovsk region	2010
	“Mogilno,” Pskov region	2012
	“Ljudinovo,” Sverdlovsk region	2012
Technological zones	“Saint Petersburg,” St. Petersburg	2005
	“Dubna,” Moscow region	2005
	“Zelenograd,” Moscow region	2005
	“Tomsk,” Tomskaya region	2005
	“Innopolis,” Republic of Tatarstan	2012
Touristic and recreational zones	“Turquoise Katun,” Altai kray	2007
	“Altai Valley,” Republic of Altai	2007
	“Gate of Baikal,” Irkutsk region	2007
	“Baikal Harbor,” Republic of Buriatiia	2007
	“Curonian Spit,” Kaliningrad region	2007
	“Grand Spa Yutsa,” Stavropol’ krai	2007
	“New Anapa,” Krasnodar krai	2007
	“Veduchi,” Chechen Republic	2013
Port zones	“Ul’yanovsk,” Ul’yanovsk region	2009
	“The Soviet Harbor,” Habarovskiy krai	2009

Source: Russian Economic Zones (<http://www.rosez.ru/>)

Another governmental measure within the framework of territorial development was the establishment of the Investment Fund of the Russian Federation in 2006. The Fund was intended to support the most prominent national and regional projects, co-financing and enabling transportation, engineering and energy infrastructure. Initially, the Fund was an instrument that supported projects aimed at reducing the distance between areas of resource extraction, zones of production and end markets. Policy-makers declared that the Fund was intended to finance nationwide projects that would be capable of accelerating the economic development of the entire

country.³⁶ Only two years later, the government allowed the Fund to finance regional projects,³⁷ thus resolving the tasks of inter-regional inequality. Experts argued that the redistribution of these federal funds generally suited the interests of the more developed regions (especially with regional projects).³⁸ As with the previous case, the most serious problem with this regional development mechanism was its non-transparent process of selecting and supporting projects.³⁹ As a result, such decisions were not based on purely economic needs, but lobbyists' pressure as well.

Also, some governmental measures are not specifically aimed at territorial development, but have become *de facto* integral parts of regional policy. Since 2007, the Center has been contributing significant resources to strengthen higher education in some regions. Besides the two state universities in Moscow and St. Petersburg, there are currently nine federal universities (Kaliningrad, Vladivostok, Kazan', Archangelsk, Yakutsk, Stavropol, Krasnoyarsk, Rostov-na-Donu and Yekaterinburg) and 29 national research universities (in Moscow, St. Petersburg, Irkutsk, Kazan, Saransk, Nizhniy Novgorod, Novosibirsk, Perm, Samara, Saratov, Tomsk and Chelyabinsk) that have been placed mainly in the more developed regions. This step follows the logic of supporting the economically strongest regions which require highly qualified cadres. At the same time, the higher educational institutions in the least developed regions are under significant pressure from the federal government to improve their quality.

These changes, however, have not become a full-scale program for modernizing regional policy. Besides the centralization of financial flows, regional development suffers from other difficulties. The government continues to support the weakest regions based on the redistribution of tax revenues from the economically strongest regions.⁴⁰ Like in the Soviet economic system, economic effectiveness here is subordinated to social needs.⁴¹ Finally, regional economies are characterized by soft budget constraints,⁴² i.e. subnational governments do not take real responsibility in

³⁶ "Gref Poobeschal Tratit' Investitsionnyi Fond Tol'ko na Krupnye Proekty." Lenta.ru. 1 August 2005. <http://lenta.ru/news/2005/08/01/invfund/>.

³⁷ "Investfond Budet Potrachen na Blagotvoritel'nost'." Gazeta.ru. 17 May 2006. http://www.gazeta.ru/2006/05/16/oa_199735.shtml.

³⁸ Olga Kuznetsova. 2009. "Regional'nye Aspekty Deiatel'nosti Federal'nyh Institutov Razvitiia." *Problemnaya Analiz i Gosudarstvenno-Upravlencheskoe Proektirovanie* 2: 4: 6–23.

³⁹ "Dlya Novogo Minregiona Vazhen Pravil'nyi Vybor Prioritetov: Interviu Natal'i Zubarevich." Regnum.ru. 16.10.2007. <http://www.regnum.ru/news/polit/899770.html>.

⁴⁰ "The Ratio of Income and Expenditure of the Consolidated Budgets of the Subjects of the Russian Federation." Ministry of Finances of the Russian Federation. http://info.minfin.ru/subj_obesp.php.

⁴¹ The brightest examples are the construction of the railways in the north of Sverdlovsk region and the Republic of Tyva supported by the Investment Fund of the Russian Federation.

⁴² Janos Kornai. 1986. "The Soft Budget Constraint." *Kyklos* 39: 3–30.

the event of financial and economic policy failure because of the opportunity to use the central government's grants to manage growing problems.⁴³ This design leads to a reduction in regional governments' incentives and potential to attract effective and long-term investments, and favors risky and irresponsible behavior among regional elites.⁴⁴

In the 2000s there was an attempt to change the principles of regional policy. In 2004 the newly created Ministry of Regional Development declared that Russia needed a new form of regional policy. A year later, the Ministry presented its Strategy Concept for the Socio-Economic Development of the Russian Regions.⁴⁵ This document proposed rejecting "the policy of equalization" with its support of the least developed areas, and advocated a shift to "polarized development" (*poliarizovannoe razvitiie*), i.e., governmental support for the most developed and prosperous territories. These affluent regions would be the basis of "clusters" that would link more and less developed regions, all while including the latter in the territorial development processes. The role of underdeveloped regions would be to provide laborers, as well as natural and other resources. This program proposed changing the principles of fiscal inter-governmental relations, the development of investment instruments in favor of more developed territories, and their economic integration with the least developed areas. The government did not adopt this concept, but the discussion surrounding it encouraged many governors and representatives of the Ministry of Regional Development to put forward proposals addressing the formation of "clusters."

According to another idea of this ministry, urban agglomerations should provide the basis for territorial development. This idea (which continues to receive support in the latter part of 2014) states that these agglomerations should become centers of economic and social development for their neighborhoods. Like clusters, agglomerations have become a fashionable way for regional leaders and elites to procure additional federal investments. Therefore, instead of infrastructural and institutional support aimed at decreasing different types of inequalities in growing (Moscow, St. Petersburg) and potential (Samara, Rostov-na-Don) urban agglomerations, the Ministry has started a full-scale program seeking to encourage new agglomerations in territories lacking objective conditions for their formation.⁴⁶

⁴³ Ilia Sokolov. 2011. "Budzhethnaya Sistema Novoi Rossii." In Petr Filippov, ed., *Istoriya Novoi Rossii. Ocherki, Interv'iu*, v. 1. St. Petersburg: Norma. p. 546–547.

⁴⁴ Yingyi Qian and Gerard Roland. 1998. "Federalism and the Soft Budget Constraint." *The American Economic Review* 88: 5: 1143–1162.

⁴⁵ Kontseptsiya Strategii Sotsial'no-Ekonomicheskogo Razvitiya Regionov Rossiiskoi Federatsii. Russkii Arhipelag. <http://www.archipelag.ru/agenda/povestka/evolution/strategy/>.

⁴⁶ In July 2014 the Ministry of Regional Development approved the list of 16 urban agglomerations that will be supported financially by the federal center (Minregion of Russia, <http://>

Although the 2008 economic crisis ended attempts to radically reform regional development policies in Russia, the examples of clusters and agglomerations above demonstrate that there are supporters of new approaches to regional policy among Russian officials and experts. However, fiscal intergovernmental relations and investment policy implementation remain inconsistent approaches to regional development. The programs formulated in this field have not been a significant factor for policy changes, and over the last fourteen years the federal Center has not modernized territorial governance. What factors, then, have contributed to the failure to modernize regional policy?

A Policy of Secondary Importance

To answer this question, I have used Kingdon's framework (Table 1) that includes four main elements – problems, solutions, politics, and participants.

From the political perspective, the early 2000s were the most appropriate period for radical economic and social reforms. And, in fact, shortly after becoming president, Putin launched several reforms simultaneously. Besides the aforementioned federal, budgetary and fiscal reforms, the federal government started implementing changes to administrative, education, labor, pension, and other policies. The success of these reforms varied greatly. Some were stopped at different stages of Brewer's policy cycle, others were implemented, then subsequently cancelled, while only a few reforms demonstrated full success.⁴⁷

Most reforms, especially the social ones, were unpopular with the Russian population since they sought to reduce the generous subsidies guaranteed by the Soviet government. These reforms changed the mechanisms for providing social services while also increasing the level of privatization within the social sphere.⁴⁸ In this context, the Russian parliament played a decisive role. The 1999 parliamentary elections led to an unstable pro-government majority and the 2003 elections allowed for full presidential control of the State Duma.⁴⁹ Those favorable conditions provided parliamentary approval for even the most contentious and technically infeasible decisions, like the monetization of social benefits implemented at the beginning of 2005.⁵⁰ The early 2000s political stream

www.minregion.ru/news_items/4773?locale=ru).

⁴⁷ Vladimir Gel'man, Andrey Starodubtsev. 2014. *Vozmozhnosti i Ogranicheniya Avtoritarnoi Modernizatsii: Rossiiskie Reformy 2000-kh Godov*. Working paper M-37/14, Center for Modernization Studies, European University at St. Petersburg.

⁴⁸ Cook. *Post-Communist Welfare States...*

⁴⁹ Grigorii Golosov. 2005. "Sfabrikovannoe bol'shinstvo: Konversiya Golosov v Mesta na Dumskikh Vyborah 2003 goda." *Polis*, 1, 108–119.

⁵⁰ Anastasia Alexandrova and Raymond Stryuk. 2007. "Reform of In-Kind Benefits in Russia:

described by Kingdon's policy process allowed the federal government to adopt and implement decisions that significantly changed the established policy patterns. That political situation, together with formulated solutions, seemingly opened a broad policy window for regional policy reform. But two other elements of the policy process reliably blocked reform for 14 years.

Surprisingly, the first reason for the failure of the reforms is located in the problem stream of Kingdon's model. Kingdon suggests distinguishing between a problem and a condition. The latter is an objective situation that must be taken into account when governing the country. The former is a situation that is assessed by the policymakers as an obstacle to development and should therefore be overcome. Using these definitions, all peculiarities of territorial development in Russia's regions can be seen as conditions of Russia's economic processes. Neither the president nor key ministers have announced regional development as important directions for their actions. The first time territorial issues were articulated as a problem came during the 2008 economic crisis, when a major decline in global oil prices damaged the strongest regions in Russia. It especially hurt the so-called monotowns, or company towns, wholly based on the economic and financial well-being of a single factory. The crisis pushed these settlements to the brink; hundreds of thousands of citizens risked losing their jobs with no prospects of finding a new one in these areas. In this situation, the government was unaware of exactly how many of these settlements were at risk and, consequently, what the scale and scope of the economic problems facing Russia's regions were. Injecting a huge amount of federal money into the budgets of lower tiers of government and subsidizing the most damaged companies alleviated the initial consequences of the 2008 crisis felt by regional and local authorities. This situation resulted in the government's statement that the current state of regional policy was a problem. However, further discussions did not lead to the formation and implementation of a new program for regional policy. Hence, even as it was emerging, the problem could not open a policy window for governmental action.

This failure is explained by the particularities of agents' position about the role of regional policy in Russia. Kingdon states that politicians and officials are not the only participants, but that there is room for other actors. They include interest groups and experts that can have significant influence on policy-making. In the Russian context, however, experts are only important players during the stage of formulating alternatives. Their influence remains restricted at other stages of the policy cycle. The other three groups of actors, politicians, officials, and interest groups, can be

studied from the perspective of Theodore Lowi, who suggests analyzing them as distinct functional groups. According to Lowi, the three groups all perform their own functions and strive to achieve goals that contradict one another. Key politicians' sole interest is to be re-elected in the next elections, officials want to implement effective policy which they are responsible for, and representatives of interest groups seek to defend their sectorial interests.⁵¹

The Russian competitive authoritarian political regime has led to the formation of a monocentric political system with President Vladimir Putin as the predominant political actor. From his perspective, the main obstacle to reforming regional policy is the contradiction between the goals of this reform and the established political relationships between central and regional authorities. The reform of regional policy demands the expansion of regional autonomy, strengthening of horizontal, interregional economic links, and support for intra-regional institutions stimulating social and economic development. Conversely, Putin's regime requires full-fledged centralized control over all subnational units and branches of the state apparatus. As the key players in providing the expected electoral results for the Kremlin, regional governors became integral parts of the federal government. Consequently, their actions are under the control of numerous federal watchdogs.⁵² Now, the governors' administrative role is to implement tasks assigned by the Center. Weakening the Center's control and extending administrative autonomy would lead to an increase in the political significance of regional governors, especially after the return of gubernatorial elections in 2012.⁵³ Therefore, the Center uses its administrative and financial control of the regions to save the pro-Center equilibrium formed after the Kremlin cancelled gubernatorial elections starting from 2005.

An additional political obstacle blocking radical changes in regional policy is the electoral importance of both highly developed regions and less developed regions. In the 2000s, the more developed regions, and especially the big cities became increasingly opposed to Putin and the United Russia party, while the least developed regions have been major supporters of the president.⁵⁴ The redistributive system of intergovernmental relations

⁵¹ Theodore Lowi. 1969. *The End of Liberalism: Ideology, Policy, and the Crisis of Public Authority*. New York: Norton.

⁵² Gulnaz Sharafutdinova. "Subnational Governance in Russia..."; Andrey Starodubtsev. 2013. "Decentralize but not Federalize: The Authoritarian Pattern of Regional Policy." The paper for ECPR General Conference 2013, 4–7 September, 2013.

⁵³ About the role of administrative, political and financial decentralizations in political relations between the Center and regions see: Tullia Falletti. 2010. *Decentralization and Subnational Politics in Latin America*. New York: Cambridge University Press.

⁵⁴ Rostislav Turovsky. 2005. "Kontseptual'naya Elektoral'naya Karta Postsovetsoy Rossii." *Politiya* 4: 161–202; Natalia Zubarevich. 2011. "Chetyre Rossii." *Vedomosti*. December 30,

played a significant role in this support; if the most developed regions independently provide for their living conditions, then the poor regions rely on federal transfers (which increase as federal elections approach). From this point of view, changing regional policy could increase the uncertainty of electoral results.

From the perspective of federal officials, regional policy has never been a top priority. In Putin's government, the two key agencies responsible for economic policy are the Ministry of Finance and the Ministry of Economic Development. Before the 2008 financial crisis, Minister of Finance Aleksey Kudrin implemented a policy of increasing budget revenues and improving the efficiency and transparency of spending. His particular recipe included the centralization of financial flows and watchdog control on spending at the regional and local levels.⁵⁵ These ways of resolving financial issues nationwide contradicted the idea of strengthening regional autonomy and motivating elites to seek new sources of regional development. The strategy pursued by Minister of Economic Development German Gref supported strengthening the potential for "poles of growth" across the Russian territory, but it did not consider the need for integrating the more developed areas with the less developed ones, decreasing inequalities between them, or strengthening institutions of self-government at the lower tiers of cities and districts. Therefore, his initiatives, such as the Investment Fund of the Russian Federation and the special economic zones, are characterized by incoherency from a regional policy perspective.

The lack of a special governmental agency directly responsible for regional policy confirms that it sits low on the list of priorities. The Ministry of Regional Development (Minregion) was formed only in 2005, and it was headed by Vladimir Yakovlev, the former governor of St. Petersburg and a former deputy prime minister previously responsible for the development of housing and communal services, who had poor personal relations with Putin since he had defeated Putin's mentor Anatoly Sobchak to become governor. Regional policy became the main focus of the new ministry as Yakovlev launched a discussion about the new regional policy that was formulated in the Strategy Concept for the Socio-Economic Development of the Russian Regions and later in his idea of urban clusters. The Concept was approved by the government in 2005, but it did not appear on the real agenda. The Russian government then was headed by

2012. http://www.vedomosti.ru/opinion/news/1467059/chetyre_rossii, accessed May 13, 2014.

⁵⁵ Andrei Zaostrovsev. 2010. Oil Boom and Government Finance in Russia...; Evgeniya Pis'mennaya. 2013. Sistema Kudrina. Istorija Ključevogo Ekonomista Putinskoi Epohi [Kudrin's System. The story of the Key Economist of Putin's Epoch]. Moscow: Mann, Ivanov and Ferber.

Mikhail Fradkov, the nominal prime minister, who was not an important player in launching major reforms. The real reformers and veto players were Kudrin and Gref, who enjoyed Putin's strong backing. Since radical transformation of regional policy was not a part of their reform agenda, the Concept was never implemented and remained merely on paper.

After Yakovlev was fired for failing to reform housing and communal services, the new minister, Dmitry Kozak, rejected the idea of clusters and focused Minregion on the problems of providing infrastructure, housing and communal services in the Russian regions. A year later, Kozak was promoted to the post of deputy prime minister in charge of preparations for the 2014 Sochi Olympic Games. The next three regional ministers, Viktor Basargin, Oleg Govorun and Igor Slyunyaev, functioned as coordinators of federal policy implementation at the regional level, and did not initiate any major policy reforms. Starting in 2012, the idea of disbanding the ministry and transferring its functions to the Ministry of Economic Development and other agencies responsible for infrastructure, housing and communal services began to gain currency. The ministry's weak position became apparent when it was not assigned any of the tasks for implementing the special development programs for the Far East and Crimea; instead, the government established special ministries responsible for these projects. Finally, in 2014 the Kremlin dissolved the Ministry of Regional Development. This institutional change demonstrated that the actors who initiated and sought to implement regional policy reforms were extremely weak players administratively, while other influential officials were able to shape policies according to their own priorities, without taking regional concerns into account.

The two major pressure groups that have their own interests in regional policy are regional governors and nationwide companies. However, the governors are not represented by a single interest group and face collective action problems since they have differing interests.⁵⁶ Only a few of them (mostly leaders of the more developed areas) are interested in implementing reforms in territorial governance. The governors of resource-dependent regions have no incentives to diversify regional economies. In the short term, such changes could adversely affect the established patron-client ties, and threaten the electoral prospects of the ruling groups in these regions. For the governors of less developed regions, regional policy reforms would provide a real social and economic challenge (the reduction of federal investments, changes to the structure of their populations, and so on) that might turn into a social and political crisis in the short-term. Thus, the governors could potentially act as real opponents to a possible reform program, but due to the federal reforms of the early 2000s,

⁵⁶ Mancur Olson. 2002. *The Logic of Collective Action: Public Goods and the Theory of Groups*. Cambridge, London: Harvard University Press.

they do not have any political opportunity to do this.

Reforming regional policy would primarily benefit mid-size businesses and companies since they would gain support in both more developed and less developed regions. From a normative perspective, large nationwide companies should be interested in new regional policy. Forming transparent mechanisms for redistributing financial intergovernmental transfers and investments, creating new transport and logistics infrastructure, targeting measures for regions with different investment potentials, encouraging greater economic and administrative openness within the regions, and reducing the governors' influence on regional economies all work to improve the business climate. Hence, big business leaders should be the main lobbyists for regional policy reforms.

But during the 2000s, the ability of big business owners to promote change in the institutional framework decreased dramatically.⁵⁷ Now they are doing well within the framework of the current system of territorial development and exploiting the non-transparency of the existing mechanisms of policy-making. The clearest example of such personalized decision-making is a governmental agreement that funds the construction of a railroad to Russia's socially and economically weakest region, the Republic of Tyva, from the Investment Fund of the Russian Federation. This project was the result of lobbying by a businessman with close personal ties to President Putin and who owned a coalmine in that region. To sum up, business had neither a formal opportunity to push for reform, nor short-term incentives to use its informal channels to achieve this goal.

Conclusion

According to Kingdon, all policy changes are the result of a lucky coincidence of a number of factors: in a favorable political period, administratively strong actors propose policy alternatives that are seen by all participants of a policy process as acceptable solutions to real problems. The failure of regional policy reforms in Russia demonstrates, foremost, the difficulty of achieving such an aggregation of factors.

Territorial governance is one of the most important parts of the Russian political process. The "parade of sovereignties" in the beginning of the 1990s, two wars in the Chechen Republic, the electoral struggle between the Center and regional leaders in 1999, the 2000 and 2004 federal reforms have all had a significant impact on the political outcomes that characterize the current regime and its development. At the same time, as a policy of secondary importance, regional development in Russian is

⁵⁷ Vladimir Gel'man. 2010. "The Logic of Crony Capitalism: Big Oil, Big Politics, and Big Business in Russia." *Resource Curse and Post-Soviet Eurasia: Oil, Gas, and Modernization*. Lanham, MD: Lexington Books, 2010. P. 97–122.

doomed to be inconsistent and subordinate to the goals of other policies and their policy entrepreneurs. Indeed, this reform met the classic J-curve problem:⁵⁸ it significantly changed the institutions in the short-term period, disrupted the status quo for all influential players, but promised positive results in economic (not political) development only in the long-term perspective.

These circumstances do not help raise expectations for reforms in the near future. The Russian system of regional development is changing under the influence of broader public administration efforts and reforms in other spheres. Agency really matters in this sense because the main actors with an interest in improving regional policy lack the ability to make any real changes.

⁵⁸ Joel S. Hellman. 1998. "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions." *World Politics* 50: 2: 203–234.