CAN THE CENTER REASSERT CONTROL?

Institutional Development in Russian Federation

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Executive Summary

The ability of a national leadership to monitor and affect political and economic developments in the regions is a critical aspect of a normally functioning federal system. The Soviet system, which was only formally federal, was built on powerful and overlapping control mechanisms. Many of these were dismantled as Russia asserted its independence. One would expect Russia as it progresses in building new state institutions to give special priority to the gradual extension of federal authority in the regions.

Instead, in most aspects of central control recent trends have been in the opposite direction. Political controls have been lessened by the introduction of elections for the post of governor and by a weakening of the system of presidential representatives in the regions. Legal instruments, to counteract the widespread adoption of laws and directives that violate the Russian constitution and federal law, have also suffered setbacks in recent years. As is true in other areas, the lack of funds has meant that the center has increasingly lost control over judicial and law enforcement organs in the regions. Financial leverage by the center has been weakened by failure to retain control over the collection and spending of federal funds that are disbursed to the regions.

The short-lived Kirienko government was beginning a series of reforms that would have begun to develop new institutional controls over regional policies, particularly in the budgetary sphere. The new Primakov government has, by contrast, brought in a former governor–Vadim Gustov–to oversee federal relations, and it is clear that the new policies are both less reformist and more governor-friendly.
Introduction:

The ability of the Russian leadership to exercise some measure of control over developments in the country is a defining element of a genuine federal system. Recent institutional developments in federal-provincial relations raise serious questions about current and future leaders’ ability to influence what happens in the regions. Creating national institutions that can effectively implement federal policies is a difficult and long-term process. For this reason, current policies and concessions create a legacy that will define the nature of Russian federalism for years to come.

There is no optimal model of federal relations, and even countries with relatively well-functioning federal systems periodically shift the balance between federal and regional/local powers. Policy goals that the political leadership seeks to achieve are a major factor determining the appropriateness of extant federal relationships and institutions. If the major purpose of a federal system is to keep a country together, then the balance of power shifts in the direction of the individual units.

Varieties of “asymmetrical” federalism are an example of one such system. For instance, one can imagine a balance of center-regional relations that would allow the official return of Abkhazia to Georgia, Transdniester to Moldova, Nagorno-Karabakh to Azerbaijan, or Chechnya to Russia. As it currently stands, the leaders of these separatist regions would insist on an arrangement that would give them virtual independence in managing their own affairs. If this were acceptable to the national leaders of Georgia, Moldova, Azerbaijan and Russia, a solution to these conflicts could be found. But the result would be little more than a legitimation of the status quo, and the ability of the center to carry out programs on a national level would be reduced to almost zero.

If, on the other hand, a national leadership has a more ambitious agenda than preventing a break-up—say, reducing regional economic inequalities or creating a common set of market regulations—an asymmetrical model will prevent this and is likely to cause resentment among those units within the federation that do not enjoy the same set of powers as the “favored” units. In Russia, asymmetry has manifested itself in the attempts by governors to gain powers that are equal to those of republics such as Tatarstan and Bashkortostan. But if the same powers enjoyed by would-be separatists were extended to all, the result would be a very loose confederation with a weak national government.

Perhaps the most difficult sets of policies to implement are those grouped under the broad concept of “reform”—referring here to attempts to liberalize the Russian economy and political system. Among the policies included in this effort would be regional efforts to ensure effective industrial privatization and demonopolization, bankruptcy procedures and enterprise reorganization, private ownership of land and housing, fiscal responsibility, and an atmosphere conducive to new small
businesses. In the political realm, the center would seek to ensure that regions are increasingly characterized by press freedoms, free and fair elections, effective and democratic city and local governments, and enforcement of federally-set legal and judicial standards.

The argument made here is that, to date, the implementation of reformist policies has been hampered by the nature of federal relations in Russia in the period since independence. Institutional arrangements in Russia have not provided incentives to local elites to implement political or economic reforms. On the contrary, regional authorities have, usually with impunity, ignored, thwarted, and undermined federal initiatives in numerous areas. This has contributed greatly to the overall shortcomings in political and economic reform in Russia. What follows is a review of developments in three broad, interrelated areas of federal institutional development: political, legal, and budgetary.

**Political Instruments in the Regions:**

From the beginning, republics within the Russian Federation were given a different political status than oblasts. Yeltsin did not appoint republic presidents–most of whom were the former communist party first secretaries. Instead, they were allowed to organize elections in which they usually won easily. In oblasts, elections were ruled out; instead governors were appointed by Yeltsin. At the same time, this procedure meant that governors could be removed by Yeltsin while republic leaders could not. Rarely did he exercise this right, however, and most often it was connected with corruption charges. In other words, governors were not removed simply for refusing to implement federal policies.

In 1996-98 elections were allowed for most chief executives in oblasts and krais. This created the possibility that candidates from the ranks of the political opposition to Yeltsin might be elected. The fact that the governors were now elected made it even more difficult to remove those who violated federal laws or the Russian constitution. While Yeltsin claimed on occasion that he still had the legal right to remove governors, he never seriously attempted to do so.

Sergei Kirienko stated, just after he had been removed as Prime Minister, that he had been drafting a law that would have given the government (i.e., the Prime Minister) the right to remove governors. Perhaps as a way to make the measure more palatable to regional leaders, the measure would have given governors a corresponding right to remove lower-level elected administrators such as mayors of oblast capitals. The end result would be the establishment of a “strict top-down” chain of command from the center to the localities. In his early statements, Yevgenii Primakov has also voiced support for a law that would allow the removal of governors (see below).

A large number of opposition leaders–some of whom had been political adversaries of Yeltsin–
emerged as democratically elected executives. The largest group of opposition governors were the “red governors” who were supported by the National Patriotic Union of Russia, an alliance of political forces dominated by the Communist Party of the Russian Federation (KPRF).

Have the communist governors behaved as a group to create a regional alliance in opposition to Moscow? Have they begun constructing an alternative economic system in Russian regions? There is little evidence of this. One recent survey of the political opposition by the Reform Foundation found that red governors had roughly the same background as other governors—they were all a part of the Soviet-era administrative elite. Similarly, in their policies the red governors differ little from other governors, and after winning office their links with the KPRF were tenuous at best.4

One reason that has not been a clearly defined opposition or “red” model of regional political economy is that most regions have exhibited substantial deviations from reformist policies. This has taken the form of restrictions on trade, price controls, illegal taxes, persecution of small private enterprises, subsidies to failing enterprises, and major efforts to preserve collective and state farms as the primary units of agriculture to the exclusion of private farming. In most regions these are popular policies for a governor to adopt, and they were just as popular when the governor was appointed by Yeltsin or when he was elected.

Given the general anti-reform bent of most regional leaders, perhaps a more important question is this: Did elections make a difference in the willingness of governors to violate federal legislation? In the opinion of the then deputy chairman of the Anti-Monopoly Committee (and later Minister of Justice) Pavel Krasheninnikov, elected chiefs of administration were much more likely to adopt one of the key measures--barriers to interregional trade designed to keep more of a region’s output in the region. These measures violate federal laws on entrepreneurial activity and also threaten to destroy the Russian internal market. Krasheninnikov explained the willingness of local leaders to flout the law by arguing that an elected governor “considers himself to be the complete master of his land.”5

The expansion of elections to lower level officials–mayors of cities and raion (district) chiefs of administration–presents an opportunity for the center to use other political instruments to facilitate reform implementation. Mayors of the largest cities (most often the oblast center) have struggled with governors over the extent of their power in most regions. Since the electoral base of mayors differs from that of governors, there is a tendency for the administrative conflicts to have a political/ideological coloring. In most cases, mayors are more interested in pursuing reforms and have tended to be political allies of the center.6

However, central authorities have effectively nullified the potential for counterposing municipal
to regional authority by not providing adequate independent sources of financing to the heads of local governments. As a result, mayors depend on governors or republic presidents for most of their budget. Are governors and republic presidents more effective at using financial levers to exert control over lower units than the center is toward governors? It appears so. The potential for influence is greater because a higher proportion of municipal budgets come from the region than comparable flows from the center to the regions.

With the assistance of the presidential administration, in June 1998 mayors and municipal associations from 22 regions founded a Congress of Municipal Entities. Its purpose is to lobby for a more favorable division of power between governors/presidents and localities. The Congress has proposed constitutional revisions, including that an assembly of mayors be created as a third house of the national parliament. The main problem facing such efforts is the resistance of governors and republic presidents, who are not interested in sharing resources or their authority.

Of special importance to federal control in the regions are the presidential representatives, an institution that was created just before Russia became independent. Early appointees to the post of presidential representative tended to be drawn from the most radical political forces of the Gorbachev era. Many were deputies elected in 1989/90 to the Soviet or Russian Congresses of People’s Deputies who had participated in parties or deputies’ groups that represented the reformist wing of these bodies. They usually were from the regions to which they were appointed, and were political figures who were well-known in those regions. Because of their political orientation, many soon came in conflict with governors. In this struggle, most resources were in the hands of the governors, and the outcome was predetermined.

The office of presidential representative still does not exist in all of the republics within the federation. The refusal to accept a presidential representative has been successful in the three regions with the greatest leverage—Tatarstan, Bashkortostan, and Sakha (Yakutia). But the result is that presidential representatives are not present in the very places where the central leadership is in greatest need of reliable, unfiltered information on local developments.

The tendency in appointments made in the last two years has been to designate as presidential representatives people who are relatively little known. What is more, a practice of clearing the appointment in advance with the governor or republic president has become common. As a result, there are fewer controversies or conflicts involving presidential representatives. This has been especially true of republics where previously there was not a representative. When a presidential representative was appointed for the first time in the Republic of Tuva, President Oorzhak greeted him with the statement
that “you are in dual subordination—to the federal center and to the republic leadership, since you will be working on the territory of Tuva.”

The practice of seeking approval from the region’s leaders has been true even where opposition governors have been elected. In Briansk oblast, for example, Governor Yuri Lodkin stated that he had been promised by presidential regional affairs advisor Kazakov that no one would be appointed to the vacant post of presidential representative without the agreement of the Briansk authorities. Nevertheless, Lodkin denigrated the position, argued that the presidential representative “exists only to write denunciations [donosy], and while receiving an enormous salary, will bring no benefit to the oblast.”

In many regions, the function of presidential representatives shifted from one of reporting and oversight to that of lobbyist for the region in Moscow. In the case of Briansk, the newly appointed representative had in fact previously served as the region’s lobbyist to the Russian government and promised to work in his new post to “consolidate all local forces in the interest of our glorious territory.”

When a presidential representative was named to Karelia for the first time in 1998, he was introduced with the statement that Karelia “has received one more working office in Moscow.”

In the period after elections for governors began, there have been a series of new appointments to the post of presidential representative. The Yeltsin administration has been increasingly willing to appoint close allies of sitting governors to this post. In no fewer than ten oblasts—Arkhangelsk, Cheliabinsk, Kamchatka, Kurgansk, Novosibirsk, Rostov, Samara, Tomsk, Ulianovsk, and Vladimir—the new presidential representative was holding the post of deputy governor at the time of his appointment.

There have been several notable exceptions to this overall pattern, cases where political opponents of governors have been imposed as presidential representatives. Aleksei Lebed’ (brother of Alexander), elected president of Khakassia was presented with a presidential representative who was one of his political enemies, V.A. Striga, the owner of a television station that Lebed’ had briefly shut down. (In November 1998, however, Striga was removed by Yeltsin “for a crude violation of his official duties.”) There was also a widely publicized attempt in May 1997 to reign in Primorskie Governor Yevgenii Nazdratenko by appointing the local head of the FSB as presidential representative and giving him expanded powers at the expense of the governor. After a year of tense relations between the two, Kondratov was relieved of his additional powers. In four regions—Altai krai, Riazan’, Stavropol’, and Tambov—former governors (usually Yeltsin appointees), who were defeated in elections, were tapped to be Yeltsin’s representatives.

Somewhat incongruously, given the new pattern of appointments to the post, in July 1997, Yeltsin issued a decree intended to expand the role of presidential representatives. The new regulations
assigned the presidential representative to serve as the coordinator for all federal agencies in a region. He was also expected to inform appropriate federal agencies about violations of the constitution, federal laws, and presidential decrees by regional leaders.\textsuperscript{13}

Anton Fedorov, director of the Kremlin office supervising the presidential representatives sought to assure regional leaders that the new decree did not represent a fundamental change in the role of the institution. In an interview in the provincial newspaper \textit{Khakassiia}, for example, he emphasized that presidential representatives need to develop a working relationship with local leaders and that their role is not to “inform on” (\textit{stuchat’}) or “spy on” (\textit{podsmatritvat’}) governors. There would also be no change in the staffing of presidential representative offices—which are limited to three to six employees.\textsuperscript{14}

\textbf{Legal Institutions:}

Many of the deviations from national policy take the form of locally generated laws or directives which directly contradict or violate national legislation. The Minister of Justice, Pavel Krasheninnikov, reported in November 1998 that one-third of the legal acts taken by subjects of the federation violate the constitution or federal laws.\textsuperscript{15} Institutions which identify and provide effective remedies in these cases can provide an important part of a federal system.

The Russian Ministry of Justice (MinYust) has sought to use a centralized, administrative approach to the problem by monitoring the adoption of regional legislation. In the early period of Russian independence, the State Legal Administration of the presidential administration reviewed measures passed by regions. In December 1994 when the volume of laws and directives being issued became unmanageable, this function was transferred to the Ministry of Justice.\textsuperscript{16} In mid-1995 the Ministry was reportedly reviewing all legal acts concerning regional political institutions (\textit{gosudarstvennoe ustroistva}) issued by subjects of the federation.\textsuperscript{17} Russian government guidelines about the future tasks of the Ministry issued in October 1996 reaffirmed that MinYust “conducts juridical review of all legal acts adopted by state organs of subjects of the Russian Federation...” If the Ministry determines that a law does not correspond to the Russian constitution or federal law, then it is supposed to present its findings to the body or official who adopted it.\textsuperscript{18}

There are several problems with MinYust supervision of regional laws, however. When this function was shifted to the the Ministry, no additional staff or other resources were allocated to it. As late as May 1997, the department responsible for reviewing regional legal acts still did not have a single computer that would allow it to use existing electronic databases of legislation. Additionally, MinYust decisions are not legally binding; they take the form of recommendations which regional leaders can
ignore. MinYust has no right to contest regional legislation or administrative acts in the courts.\(^{19}\) (MinYust can, however, provide its findings to prosecutors, who then can file a case in the court system.) Many regions simply refuse to submit their laws, decrees, or resolutions for review. MinYust complained that, in 1996, 22 regions did not submit a single legal act for examination; among these were the republics of Altai and Tuva, and Amur, Lipetsk, and Novosibirsk oblasts.\(^ {20}\)

Perhaps more effective than a centralized, post-hoc approach would be for MinYust to make use of its own staff in the regions to get involved in law-creation activity at an earlier stage of the decisionmaking process. The legislature of one region, the oil-rich Khanty-Mansi autonomous okrug, established in May 1998 a special Consultative Council to facilitate regional lawmaking that would not be in conflict with federal laws. The council is made up of legal specialists from the Russian presidential administration, both chambers of the Russian parliament, MinYust, and relevant research institutes. Its role will be to provide models of regional legislation suitable for all regions.\(^ {21}\) To this point, there has been little interest on the part of other regions in this project, however.

Currently the territorial organs of MinYust, who are paid out of the federal budget, are limited in size to a staff of about 30 in each region. A more important limitation is that these regional organs are only formally part of the Ministry of Justice. All are directly subordinate to governors and republic presidents. This subordination to the regional administration leads justice officials in the regions to view their role as defending the local leadership against the federal center.\(^ {22}\)

At the level of the regions, the procuracy and the court system have proven one of the most effective channels to challenge local authorities who have disregarded national laws or the constitution. The prosecutor’s first step is to file a protest with the source of the regional law or directive. In 1997, it was reported that prosecutors at all levels had issued protests against over 85,000 legal acts.\(^ {23}\) Reports indicate that in many cases, the protest is sufficient to cause a change in the law or decree. If protests fail to achieve the desired result, prosecutors can take the matter before the courts. In 1996, prosecutors in 62 regions filed cases to strike down over 250 illegal regional decisions. In 1997, the Prosecutor General reported to Yeltsin that 1,500 illegal acts had been overturned as a result of prosecutors’ activities.\(^ {24}\)

Local prosecutors have played an important role in this process, but recent changes threaten this role. Initially, prosecutors in the regions were appointed solely by the Prosecutor General. It was reported in mid-1997 that the procedures had changed; according the chief of the office responsible for overseeing the legality of regional laws, “a new practice” gave the regional chief of administration a say in the selection of the regional prosecutor. His assessment was that the new procedure had “a sharply negative effect on the prosecutors’ activity.”\(^ {25}\)
It is in the court system that cases challenging illegal regional laws and decisions are heard. The vast majority end up in the courts of general jurisdiction. The general court system, which extends from local courts to the Russian Supreme Court, adjudicates cases brought by citizens, prosecutors and legal entities such as businesses. Judges of general purpose courts are federal entities, appointed by Yeltsin and supposedly paid out of the federal budget. Efforts to set up alternative court systems on a regional basis have been vigorously opposed by central authorities. Nonetheless, as Yeltsin’s legal adviser, Mikhail Krasnov put it, the republics of Tatarstan and Bashkortostan “don’t recognize the Russian court system.”

A separate national institution with responsibilities in the area of defining and defending federal powers is the Constitutional Court -- an institution that, as a result of changes in the 1993 Constitution, is heavily dependent on the Russian President. The Constitutional Court, which began operating in its current form only in March 1995, is limited in the number of cases it can hear, and given the scale of violations, rules on only a small fraction of complaints arising from regional laws. There is over a one-year wait before a case brought to the court would appear on the docket. Prosecutors, from the General Prosecutor on down, do not have the right of direct appeal to the Constitutional Court; instead cases need to be brought by organs of government such as regional legislatures. Among the clearest examples of a type of law that violates the Constitution are the numerous regional prohibitions on private ownership of land. Yet, as the then newly appointed minister of land policy, Il’ia Yuzhanov, put it “unfortunately, there is no mechanism which would force a subject of the federation to carry out the Basic Law [Constitution].” When asked why the Constitutional Court had not performed its presumed role, Yuzhanov replied that “So far there have not been any appeals to it on this issue.”

Many more cases come before the general court system, but the jurisdictions of the general courts and the Constitutional Court are poorly defined in existing legislation and the constitution. As a result, there have been disputes between these bodies that have resulted in a weakening of judicial controls over regional executives and law-makers. In a decision adopted on 16 June 1998, the Constitutional Court held that, in the absence of a constitutional law on general purpose courts, only the Constitutional Court can determine whether or not a law is in violation of the constitution. The deputy chairman of the Russian Supreme Court argued that the logical extension of this decision was to invalidate all previous court decisions overruling regional legislation and decrees. In other words, this ruling by the Constitutional Court has reinstated all regional laws or decrees that the general purpose courts threw out.

Regional constitutional courts, which are not linked in any way to the federal court system, have been set up in thirteen republics (plus two ustaw courts created in Sverdlovsk and Irkutsk). In effect, each
court is beholden only to the leadership of the region in which they function. So far, these courts have
only attempted to interpret the legality of regional laws *vis a vis* their republic constitution; they have not
attempted to make judgements about possible conflicts between republic laws or constitutions and the
Russian constitution. The federal Constitutional Court organized a meeting of judges from these courts in
April 1998 in an attempt to create a Consultative Council. In the words of the Court’s chairman Marat
Baglai, the council’s purpose would be to “discuss a broad range of problems including among them the
division of competence of the courts.” Representatives from the Constitutional Court of Tatarstan chose
not to attend.30

A number of specialized agencies examine regional legislation in their areas of expertise to
determine violations. Among the most active has been the State Anti-monopoly Committee and its
territorial administrations in each region. Legal specialists, both in the national committee and the
territorial branches, examine laws and regulations that illegally restrict competition, including
competition from other regions.

The committee has the right to issue warnings and then, levy fines on governors who refuse to
nullify offending measures. The effectiveness of these measures is low, however. Despite challenges
from the center, the Anti-monopoly Committee estimates that 70% of regions have enacted restrictions on
imports of alcoholic beverages. According to the deputy chairman of the committee, governors and
presidents have rescinded illegal regulations and then simply reissued them a few days later – a process
that can be repeated after each warning.31

Law enforcement agencies represent another line of defense for federal legislation. When
regional officials’ behavior crosses the line of legality, the police under the control of the regional
Departments of Internal Affairs (UVD) have responsibility. Directly subordinate to the Ministry of
Internal Affairs (MVD), the local heads of the UVD are chosen by the Minister of Internal Affairs with
the agreement of regional “organs of state authority.” In June 1998, the Duma rejected an effort by
Yeltsin to take over personally the right of naming regional police chiefs, though he proposed to continue
the practice of giving regional authorities--now the executive branch--the right of approval.32

The relations between regional police officials and regional leaders vary from place to place. In
Pskov oblast, the head of the territorial UVD, General Shchadrin, was the most visible federal official
standing up to the LDPR governor, Yevgenii Mikhailov.33 By September 1998, however, Mikhailov
succeeded in having Shchadrin replaced.34 In Kemerovo, the lack of federal finances for the police has
reportedly led to a close dependence on the oblast’s leadership (and a willingness to look the other way
when faced with obvious evidence of corruption).35
Another key federal official in law enforcement is the regional head of the Federal Security Service (FSB). This has traditionally been one of the posts most closely guarded by the center; appointments were almost always made in Moscow, and the regional chief was typically brought in from another region. Even here, however, there has been erosion of the center’s influence. In Kalmykia, and certainly in other republics, the head of the local FSB has been vetted by the republic president. When the opposition newspaper editor Larissa Yudina was murdered in mid-1998, federal authorities indicated their lack of trust in republic police officials by sending in an outside team to take over the investigation.

Another presidential agency for monitoring the regions has become closely linked to law enforcement agencies and the FSB in particular. The Main Control Administration (Glavnoe kontrol’noe upravlenie or GKU) of the presidential administration has been led most recently by appointees from the FSB. Vladimir Putin (subsequently appointed director of the FSB in mid-1998), served in 1997-98 as head of the GKU and spent much of his career in the Leningrad branch of the KGB. His successor, Nikolai Patrushev, who was appointed in June 1998, was also drawn from the security service.36 In 1995, eleven territorial inspectorates (okruzhye inspektisiia) were created, each responsible for a group of regions.

The head of the central non-black-earth territorial inspectorate, Nikolai Sidorov, indicated that his unit had seven employees, including one for each of the five oblasts under its purview. He viewed his role as one of coordinating the activities of other federal law enforcement agencies in the regions (including the FSB, UVD, tax police, and VChK—the special interagency tax investigator). A main focus of this work appears to be anti-corruption investigations—some at their own initiative and others assigned by Yeltsin directly. Findings are turned over to prosecutors.37 Putin reported that in 1997 over 50 criminal cases had been filed, and 20 officials were convicted as a result of the GKU’s activities.38 In 1998, GKU brigades were given responsibility for investigating why coal miners’ wages had not been paid.39

On rare occasions, the Russian president himself has issued a decree nullifying regional decisions that his administration determined were illegal. In January 1998, for example, Yeltsin stopped several resolutions issued by the Cabinet of Ministers of the Republic of Adygeia on the grounds that they constituted obligatory instructions to privatized agricultural enterprises—a violation of their economic rights under the law.40

**Budgetary Institutions:**

In principle, fiscal flows from the center represent an important instrument for advancing federal policy. These flows can be used to overcome regional inequalities that are more extreme in Russia than
in most countries. Fiscal instruments can also be used to reward (or penalize) regions for the implementation (or nonimplementation) of the center’s policies.

However, the reality of fiscal relations between the center and the regions have not been used to advance federal goals other than the minimal goal of reducing separatist tendencies or responding to threats—what Daniel Treisman has called “fiscal appeasement.” Regions that have benefitted most from the redistribution of tax receipts have been regions that also have been the least cooperative in implementing political and economic reform. Separate deals with some of the most demanding individual regions such as the city of Moscow and the republic of Tatarstan gave additional authority to these regions to retain locally generated revenues.

Other governors and presidents routinely visit the Russian White House to “beat out” (vybit’) budgetary allocations from the government and the Ministry of Finance. It is clear that regions whose leaders fall into the category of “the opposition” to Yeltsin and his government have not suffered disproportionately in receiving their budget allocations. Public statements by governors such as Mikhailov in Pskov and Surikov in Altai krai, among others, indicate that their receptions in the halls of the Ministry of Finance or with the Prime Minister were not different than that accorded other governors. Surikov reported, for example, “no discrimination” from Moscow toward his krai and “normal relations” with Chernomyrdin.

A number of institutions play a role in the administration of Russian budgetary federalism. By far the most important of the budgetary agencies affecting the regions is the Ministry of Finance (Minfin) and its subordinate agencies—the treasury (kaznacheistvo) and its control-auditing administration (kontrol’no-revizionnye upravlenie or KRU). MinFin’s territorial control-auditing organs constitute a regional network of auditors that inspect financial records concerning the use of federal budgetary and extra-budgetary funds; they also conduct financial audits at the behest of law enforcement agencies. In 1995, KRU uncovered serious abuses across Russia by regional organs of the Federal Employment Service, which were using federal funds primarily to obtain expensive office space and to “invest” in commercial banks offering high rates of return.

Tax collection agencies—the “tax inspectorate” (nalogovaia inspeksiia)–are present in the regions and are formally linked to the central State Tax Service (Gosnalogsluzhba or GNS). In practice, though, regional tax officials are paid by the regions. They therefore tend to place priority on taxes for regional needs and collect federal taxes last. In August 1998, Boris Fedorov, then head of the State Tax Service, presented legislation to the Duma that would have strengthened the subordination of regional tax inspectors to the GNS and that would have created a special fund from tax receipts to maintain the
The new system, which would have significantly undermined the ability of governors to manipulate tax receipts, encountered steadfast opposition in the Duma.

Since banking institutions are often the mechanism through which regional leaders confiscate or misdirect federal funds, the Russian Central Bank can also act to enforce federal budgetary discipline. In September 1998, the bank closed its branch in Kalmykia, the National Bank of Kalmykia, after the branch diverted federal tax receipts to the republic’s budget. The effectiveness of central bank pressure is limited, however. Many regions have relied not on branches of the central bank, but on commercial banks with close ties to the regional government.

The treasury, which is under the direct control of MinFin, represents a new institution in Russian regions that is designed to promote increased control over funds that come from federal sources. In the Soviet period, the near monopoly position of Gosbank made it relatively easy to monitor the flow of money. With the proliferation of other types of banks, however, and the frequent transfer of funds from one account to another, it became virtually impossible to “follow the money trail.” The kaznacheistvo began to be formed in regions in 1993, as a result of a December 1992 Yeltsin decree. By early 1998, regional treasury organs of the federal treasury had been set up in all except two regions. An agreement was reached with Bashkortostan, but Tatarstan continued to block the creation of treasury organs on its territory.

New policies set in motion in 1997-98 were supposed to shift the bulk of budget flows (both tax receipts and transfer payments) into the treasury. A presidential directive called for exclusive use of the treasury system by July 1998. By the beginning of 1999, regions are to transfer accounts of any organizations or commercial structures financed from the federal budget to the treasury. It is not clear whether these deadlines and policies will be continued under a new, more “governor-friendly” Primakov government.

A major purpose of these and other reforms in budgetary policy is to ensure that funds allocated from the center are spent for the purpose for which they were designated. A long-running controversy has developed around the issue of unpaid wages to employees paid out of budget funds. Yeltsin promised, for example, that wage arrears in the budgetary sector would be paid by the end of 1997. The federal government claimed to have provided the necessary transfers to the regions, only to find later that the money had been used by governors or republic presidents for other purposes.

Discussions about the need for overhauling interbudgetary relations took place in 1997-98. A number of prominent figures from the “team of young reformers”—including Anatoly Chubais, Aleksei Kudrin, and Boris Nemtsov—considered this the key element of restructuring federal relations with the
regions. A primary figure in working out the details of this policy was Viktor Khristenko, deputy minister for finance from July 1997 to April 1998. Khristenko, who served in the regional administration in Cheliabinsk and had briefly been presidential representative to that oblast, was named deputy prime minister under Kirienko.  

A model agreement was worked out in June 1998 that outlined the main parameters that were to be included in agreements with individual regions. The agreements would tie the hands of regional authorities and require them to adhere to federal policies across a broad spectrum, including:

1) to place pressure on tax delinquent enterprises by preventing regional leaders from allowing payment in the form of write-offs (zachety) on taxes that have to go to the center and stopping subsidies out of the regional budget to any enterprises that have unpaid tax bills. These are precisely the enterprises that are in the most serious financial difficulty, and they frequently include some of the largest, most visible enterprises in a region;

2) to commit to reducing regional administrative expenses, including a forced reduction in staff, and salaries to regional officials. Regional administrators frequently are paid much higher salaries than those at the federal level;

3) to carry out several long-discussed reforms, including raising rates for housing and communal services, energy prices, transportation, and communications. Subsidies to these sectors make up a major part of regional budget expenditures. The measures also call for the end to cross-subsidies--where one set of users pays proportionately more than others;

4) to give priority to paying wages and salaries to budget-funded employees before allocating funds for purchases, investment, or other expenditures; and

5) to negotiate parallel agreements with local (city and district) authorities to insure that the reforms would be carried out to the lowest level.

In the event that a region violated the agreement, the center would curtail or reduce funding to the region until the violation was corrected. The only significant positive incentive for the regions was an agreement to delay the repayment of federal loans received in 1997. The government assigned vice-premiers Nemtsov, Sysuev, and Khristenko to obtain the signatures of regional leaders on the agreements in late June 1998. Leningrad, Ivanovo, Yaroslavl’, and Novosibirsk were among the first regions called on to sign. If implemented, these budget agreements would represent a major change in center-region financial relations. But the removal of the main officials responsible for introducing this innovation–Khristenko, Nemtsov, Sysuev, and Kirienko–does not bode well for its future.

Another blow to interbudgetary reform was the September 1998 arrest on corruption charges of Vladimir Petrov, first deputy Minister of Finance and the chairman of the interdepartmental working group on improving interbudgetary relations. This group, created in August 1997, determined the outlines of the new policy in a series of meetings that involved the presidential administration, representatives of other ministries, the Duma and Federation Council, and regional leaders.
Opposition from regional leaders to the budgetary reforms was expressed collectively in a resolution passed by the Federation Council in late May 1998. Regional leaders complained that the center takes no responsibility for carrying out its obligations, while imposing harsh new conditions on the regions. Governors and chairmen of regional assemblies also criticized the reforms for not addressing how funds would be distributed between the center and the regions; they represented “a continuation of the policy of concentrating budget income at the federal level” and “further deepens the existing vertical and horizontal imbalance of the budget system.”

Another important manifestation of federal budgetary relations with the regions is the tax code. The new tax code has been the subject of debate and negotiations for over a year. The main result of the tax code, if adopted, is likely to be a reduction in the levers available to the center to influence regional policy. The first part of the tax code, adopted in July 1998, outlines which taxes would be federal, regional, and local. The impact of this and any formula which would set a percentage of federal receipts that would be returned to the regions is to give regions independent sources of financing that inevitably reduce dependence on the center and undercut its potential ability to leverage budget flows for the purpose of ensuring compliance with federal policies.

**Conclusion:**

The collapse of the USSR and the CPSU removed major links in the system of central control over Russia’s regions. Initially, the Yeltsin leadership took steps to create a vertical executive authority, including appointing governors and establishing the institution of presidential representatives in most regions. New legal and financial institutions have also been set up in the regions.

Despite these developments, however, the period since 1993 has seen a substantial weakening in the powers of the center. Rather than create a foundation for redefining relations between the center and the regions, the Russian leadership has instead allowed federal institutions to continue to decay. As a result, the prospects for establishing a system that would give the central authorities the ability to implement a reformist program has given way to distortions and deviations from national policies. It is clear from examining “cadre policy” and the inconsistencies in defining the functions of new and existing agencies that there has been no overarching program for reestablishing federal control.

A number of factors help explain the deterioration of federal institutions. The lack of consensus on policy directions in the presidential administration and government has expressed itself in the unclear and overlapping responsibilities of local organs of federal power. (This was also a characteristic of Soviet administrative practice.) Frequently this local ambiguity reflects struggles over turf in Moscow by the
parent ministries or state committees. A clear illustration of this was the attempt in May 1998 to set up a new federal agency that would concentrate control of federal agencies in the North Caucasus under then vice premier Khristenko. Almost immediately, the head of the MVD Sergei Stepashin made it clear that his agency would permit no such thing; “all force structures” in the region would be under the direct control of a MVD general.59

Lack of money is another important factor that makes it difficult for federal policymakers to preserve or extend their influence in the regions. The salaries paid to specialists in central agencies and local representatives are not sufficient to retain highly skilled specialists. For example, a significant part of the legal staff of the State Anti-Monopoly Committee was hired away by Gazprom.60 At a time when its importance and workload was increasing, the Ministry of Finance announced it would reduce the staffing of its territorial branches by 20%.61

Local judges in the Russian federal court system, which has not received full funding from the federal budget, are increasingly dependent on regional leaders.62 Lack of central financial support for military units, it has been argued, has had the effect of increasing the dependence of the Russian military on regional leaders. During the Russian financial crisis of September 1998, the center offered to write off a region’s debts to the center to the extent that the region supplied food to soldiers based in their jurisdiction.63 More dramatically, Alexander Lebed’ argued that regional leaders, local military commanders, and the people were “in the same foxhole,” implying that local officers could not be counted on by the center to follow its orders.

Perhaps the most important factor explaining the continued decline of central authority has been the alternating whirlwind and vacuum at the core of Russian national politics. Political and economic reform have not been a sustained policy goal of the Yeltsin administration and the government under his control. Goals other than reform have predominated in the policymaking process in Moscow--maintaining control over central institutions and seeking the support of the electorate, for example--with the result that policymakers have been less inclined to take the steps necessary to reform the federal system in the direction needed to implement substantial reforms.

It was more important to Russia’s leaders to gain allies in the regions than to undertake difficult and controversial reforms. From 1992 until 1998, even the periods of rapid policy innovation have taken place in the context of an internally divided government, with important economic portfolios headed by conservatives who opposed basic elements of liberalization.

It was not until the short-lived Kirienko government in mid-1998 that reformers dominated all the main economic posts. It is no coincidence that this period also marked one of the first serious attempts to
increase federal control over developments in the regions, particularly in the area of interbudgetary relations. The Kirienko government included a number of recruits from the regions who had only recently been brought to posts in Moscow—including Nemtsov, Khristenko, and Sysuev; naturally, they focused their attention on regional aspects of reform and barriers to implementation.

By contrast, the government formed by Primakov in September 1998 was the least reform-oriented of the post-Soviet era. It is also likely to be more conciliatory to regional elites. In his speech to the State Duma prior to confirmation, Primakov indicated that he gives priority in regional policy to preventing a break-up of the country, along with ruling out “any trend towards destroying the hierarchy, towards weakening central leadership, towards ignoring central leadership...leaders who do not abide by the constitution and the law must be held accountable for this.”

At his first meeting with the government, Primakov spoke in favor of the Duma passing a law that would provide for the dismissal of governors (he did not mention republic presidents) who violate the constitution and laws. At the same time, Primakov announced that he intends to bring a number of governors and republic presidents into the government through the creation of a new “presidium.” The current emphasis is on representing regional leaders in policy making, not bringing in regional expertise in order to devise strategies for making federal institutions work better.

If, as is apparent, liberalizing reforms are not a primary goal of the new Primakov-led government, then the number of potential conflicts with regional leaders drops dramatically. A central government that is indifferent to internal barriers to trade, supports a loose monetary and budgetary policy, restricts (and possibly reverses) the privatization of land and state enterprises, and favors protectionist tariffs and subsidies to industry will find few opponents among Russia’s governors. As a recent analysis of events in Nezavisimaia gazeta put it, the “real winner of the current crisis turned out to be neither the State Duma nor the KPRF, but the party of governors.” The answer to the question “can the center reassert control?” is at least partly dependent on the answer to a prior question—“control to do what?”

NOTES

2. For an overview of the gubernatorial elections which is much more optimistic about the potential for federal influence over governors and presidents through the budget process, see Steven Solnick, “Gubernatorial Elections in Russia, 1996-97,” Post-Soviet Affairs, v. 14, no. 1 (1998), pp. 48-80.


6. In 1996-97, while it was still an organ of the presidential administration, the newspaper Rossiiske vesti, presented an extensive series of political portraits of Russian mayors.


8. Tuvinskaia pravda, 2 August 1997.


10. Interview with Gaidukov in Brianskii rabochii, 19 August 1997.


22. Vysotskii interview, op.cit.


27. Interview with Yuzhanov in Rossiiskaia gazeta, 9 June 1998.


42. Altaiskaia pravda, 20 March 1997.


55. While Khristenko returned to the Primakov government as deputy finance minister, he apparently is not responsible for regional financial policy.

56. On the working group headed by Petrov, see Finansy, no. 2 (February 1998), p. 61; on Petrov’s arrest, see “Delo Vladimira Petrova balansiruet mezhdu korruptsiei i politikoi,” Segodnya, 3 September 1998.

57. Vedomosti federal’nogo sobrania RF, no. 16 (1 June 1998), pp. 59-63.


64. Speech broadcast on Russian television, 12 September 1998.
