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**TITLE: CENTER-PERIPHERY BARGAINING IN RUSSIA:
ASSESSING PROSPECTS FOR FEDERAL STABILITY**

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**CENTER-PERIPHERY BARGAINING IN RUSSIA:
ASSESSING PROSPECTS FOR FEDERAL STABILITY**

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EXECUTIVE SUMMARY¹

Russia's stability as a federal state has defied initial expectations. After a period of precarious devolution of power, recent years have seen a trend toward re-centralization.

Russia's post-Communist history can be portrayed as a string of episodes in which the federal government failed to assert and enforce universal rules applicable to all 89 federal subjects. To explain these developments, we can employ a model of simultaneous bargaining between the center and regions. Outcomes of this game are dependent on the strategies chosen by federal and regional actors: a stable federation is likely to emerge from a limited degree of collective bargaining among the regions combined with a central government pursuing some degree of universality in its regional policy.

The interplay of strategies at both levels is illustrated by the case of the Urals Republic. Ultimately, this effort to upgrade the status of Sverdlovsk and surrounding oblasts fell victim to a) fear that Sverdlovsk oblast would become a regional hegemon, and b) Moscow's aggressive efforts to "buy off" restive governors with bilateral deals.

An analysis of the December 1995 election results suggests that Moscow's pursuit of ad hoc bilateral deals has translated into electoral support for the governing party. We are therefore likely to see the continued proliferation of such agreements during 1996, despite the risk of an unsustainable spiral of costly particularistic demands.

Introduction

When Russia became independent in 1991, many Russian and Western observers predicted that the fragmentation that had doomed the USSR would not stop at the borders of the Russian federation.² By the close of 1991, most of Russia's own autonomous republics had declared themselves "sovereign;" since each of these entities was the designated homeland of a different non-Russian ethnic group, the threat of ethnic conflict was real. In Tatarstan, for instance, radical nationalists calling for independence from Russia were drawing large crowds; in Chechnya, a secessionist movement succeeded in disarming and expelling Russian troops sent to quell the revolt.

Over four years later, however, many observers see the Russian Federation advancing inexorably toward a restoration of Soviet-style unitary centrism. Despite the military debacles

¹This is the third of three reports from an ongoing research project analyzing and tracing changes in Russian federalism (center/periphery relations), from which additional reports are anticipated through June 30, 1997. [NCSEER Note]

²See, for instance, "How Close is Russia to Breaking Up?" *Current Digest of the Soviet Press (CDSP)*, v. 44, n. 8 (25 March 1992), p.1.

that have trapped federal troops in Chechnya, separatism has not spread to the other ethnic republics. On the contrary, presidents of many of these republics have consolidated power at home and thrown in their lot with the "Party of Power" in Moscow. Meanwhile, governors of most of the predominantly Russian oblasts and krais are still appointed and dismissed directly by President Yeltsin.³

Is the Russian federal experiment doomed, either to revert to centralized rule or dissolve into anarchy? Or are national and subnational governments in Russia beginning to reach a consensus on a stable and lasting division of power and responsibilities? Is federalism even the proper concept to apply to the emerging Russian state structure, or is it simply a red herring, a mis-application of a Western constitutional concept masking a more elemental struggle over power and the distribution of state resources?

This paper suggests a framework for analyzing the development of federalism as a bargaining game. I then employ that framework to assess the prospects for consolidation or disintegration of the federal system, as a function of different bargaining strategies employed by elites at the national and sub-national levels. I begin, however, with an overview of political developments between levels of the federation since 1990.

Soviet and Russian State Structure: 1990-95

The Soviet Union was a multi-ethnic federation in which major ethnic groups were associated with particular national "homelands." This linkage of ethnic groups with territorial divisions defined the structure as "ethno-federal," and the present Russian constitution retains this distinction.

The federal structure of the Soviet state was extremely complex and based upon a detailed hierarchy of federal sub-units. At the top of this hierarchy were the 15 Union Republics, like Ukraine, Kazakhstan or the Russian Federation (RSFSR). Each of these 15 republics became independent after 1991. The Union Republics were themselves composed of some 20 autonomous republics and 120 territorial-administrative oblasts or krais. Each autonomous republic was the designated homeland of one ethnic group (or occasionally a cluster of nationalities). While these autonomous republics were subordinate to the Union Republics and lacked the right to secede (which the Union Republics had, at least on paper), they did have certain privileges in the area of cultural autonomy and home rule. Eighteen

³The "Party of Power" referred to here is Viktor Chernomyrdin's "Russia—Our Home" movement, which has strong support from many republican presidents and oblast' governors. Despite the direct election of thirteen governors in 1995, Yeltsin continues to exercise his prerogative to dismiss and replace governors in regions where elections have not yet been held (in 1996, for instance, he has already replaced a half-dozen governors).

autonomous oblasts or okrugs, each subordinate to an oblast or autonomous republic. constituted a third tier of ethnic homelands.

In June 1990, the Russian Federation's newly elected legislature followed the lead of the Caucasian and Baltic republics and declared Russia to be "sovereign."⁴ The most important implication of this declaration was that Russia's laws were to take precedence over Soviet laws, and that Russia was to control the disposition of natural resources on her territory. This action was quickly mimicked by the 16 autonomous republics within the borders of the Russian Federation, eager to seize the opportunity to gain greater control over their own affairs. By October of 1990, eleven of these sixteen republics had passed their own sovereignty declarations.⁵

Though initially wary of the long-range implications of these developments, Boris Yeltsin quickly decided to enlist the autonomous republics in his more pressing struggle against Mikhail Gorbachev. Noting that Gorbachev's opposition to republican declarations of autonomy were futile, Yeltsin told the leaders of his autonomous republics to "take as much autonomy as you can swallow."⁶ When the Soviet Union disintegrated in December, 1991, Yeltsin had to scramble to make good on his pledge while consolidating the new state. Many observers expected him to fail, and Russian commentators in early 1992 were fond of punning "razvivatsiia Rossii" (to develop Russia) into "razviazatsiia Rossii" (to untie Russia).

Yeltsin attempted to secure the allegiance of the restive autonomous republics by offering to sign a "Federation Treaty" with them that would serve as the basis for a new, post-Soviet Constitution. According to this treaty, the republics were acknowledged to be "sovereign republics within the Russian Federation" with property rights over land and natural resources

⁴The review of events presented in this section does not aim to be a comprehensive account of the 1990-95 period. For more detailed overviews of events up to the passage of the December 1993 constitution, see Darrell Slider, "Federalism, Discord and Accommodation: Intergovernmental Affairs in Post-Soviet Russia," in Jeffrey Hahn and Theodore Friedgut, eds., *Local Politics in Post-Soviet Russia* (Armonk: M.E.Sharpe, 1994); Elizabeth Teague, "Center-Periphery Relations in the Russian Federation," in Roman Szporluk, ed., *National Identity and Ethnicity in the New States of Eurasia* (Armonk, M.E.Sharpe, 1994) ; Kathryn Stoner-Weiss, "Local Heroes: Political Exchange and Governmental Performance in Provincial Russia" (Ph.D. Dissertation, Department of Government, Harvard University, 1994), esp. Chap. 2; and Steven L. Solnick, "The Political Economy of Russian Federalism: Problems of Measurement and Analysis" Paper Presented at the 1995 Annual Meetings of the American Political Science Association, Chicago, Ill..

⁵Stoner-Weiss, p.72.

⁶TASS, 7 August 1990, cited in Teague, p. 30. Yeltsin initially directed the comment to oil-rich Tatarstan, whose sovereignty declaration did not acknowledge its membership in the Russian Federation. Yeltsin's remark was repeated, and more widely cited, in an interview with *Komsomol'skaia pravda*, 14 March 1991.

on their territory.⁷ The gambit backfired, however, when the remaining oblasts of the federation objected to being permanently relegated to second-class status. As one analyst in *Moscow News* observed: "23 million Russian subjects will live in a federation, and another 124 will live in a unitary state."⁸

Hoping to stave off a revolt from the oblasts but still eager to reach consensus on at least a provisional state structure, Yeltsin signed three similar treaties in March 1992: one with the autonomous republics (and four autonomous oblasts elevated to republic status — Adygea, Gorno-Altai, Karachai-Cherkassia, and Khakassia), one with the lesser autonomous okrugs, and one with the non-ethnic oblasts and krais (and the "Federal cities" of Moscow and St. Petersburg, which essentially received treatment as oblasts). These Federation Treaties recognized two different classes of "subjects of the Federation:" 21 ethnic republics and 68 administrative-territorial regions.⁹ Territories in the former group, which I shall call simply "republics," were recognized by the Federation Treaty as "sovereign states" and were promised expanded rights over their natural resources, external trade and internal budgets. Two republics, Tatarstan and Chechnya, insisted on a fuller statement of their independence from Moscow and refused to sign the treaties. The non-republic territories — which I shall simply call here "regions" — received few enhanced rights beyond their designation as "subjects of the Federation," the same term used to describe the republics.

Subjects of the federation soon found themselves in the middle of the ongoing struggle between Yeltsin and the Russian parliament. In the 25 April 1993 national referendum, Boris Yeltsin's showing in Russia's regions was significantly stronger than in her republics. On the first question on the ballot, inquiring about "trust in the President," Yeltsin failed to carry 10 of the 20 republics participating in the vote (no balloting was held in the Chechen Republic); he failed to carry just 16 of the 68 regions.¹⁰ Following Yeltsin's overall success in the referendum, attempts to devise a new constitutional foundation alternated between courting the intransigent republics, and moving to strip them of their privileges.

⁷These property rights were to be constrained in practice by Federal-level legislation; thus the real devolution of power in the area of resource revenues appears to have been ambiguous at best. See Charles McClure, "The Sharing of Taxes on Natural Resources and the Future of the Russian Federation," in Christine Wallich, ed. *Russia and the Challenge of Fiscal Federalism* (World Bank, 1994).

⁸Olga Glezer, *Moscow News*, no. 7, 1992, cited in Teague, "Center-Periphery Relations," p. 32.

⁹For more background on the relabeling of territories effected by the treaties, see Vera Tolz, "Thorny Road toward Federalism in Russia," *RFE/RL Research Report*, v.2, no. 48 (3 December 1993), pp.1-8; and Richard Sakwa, *Russian Politics and Society* (London: Routledge, 1993), pp.111-130. Actually, only 20 republics were recognized in the March treaties, but Chechen-Ingushetia later split into two separate republics.

¹⁰*Rossiiskaia gazeta*, 19 May 1993, p.2. NB: These figures do not include returns from the Aga Buriat okrug.

In July, a specially convened Constitutional Assembly was initially reluctant to preserve the republics' "sovereign" status in the new draft of the Russian Constitution; the remaining federation subjects demanded equal rights. The draft ultimately approved by the Assembly, however, embodied the essential clauses of the Federation Treaty, including republican "sovereignty." Nevertheless, this draft received the support of representatives from just eight of these 21 republics, and ultimately failed to generate much political support among provincial leaders of either stripe.¹¹

Yeltsin made one final attempt in August 1993 to win the support of provincial leaders for a draft Constitution that could break his increasingly bitter deadlock with the Russian parliament. Yeltsin met with regional and republican representatives in Petrozavodsk and proposed the creation of a Federation Council that would be staffed, *ex officio*, by representatives of the 89 provincial governments, and would serve as the upper house of the new Russian Parliament. The proposal, however, was seen by regional leaders as a short term ploy to circumvent the Khasbulatov's Supreme Soviet. In the longer term, there was no guarantee a similar ploy would not be used to undermine the Federation Council itself. Republic leaders, meanwhile, objected to the proposal's equal treatment of all federation subjects, which would have left them badly outnumbered by the predominantly Russian oblasts.¹²

After the Federation Council scheme was finally rejected by regional and republican leaders in mid-September, Yeltsin launched his decisive attack on the old Parliament. His victory on 3-4 October was achieved with little help from provincial leaders. Many had declared his move unconstitutional — and a majority of provincial leaders had even attempted to seize power at the expense of both the President and Parliament by establishing a short-lived "Council of the Subjects of the Federation."¹³

In the wake of the "October events," republics began to lose many of the privileges accumulated in earlier agreements, and the role of the center vis à vis the provinces was strengthened. The new Constitution ratified on 12 December treated republics and regions essentially as equals, and dropped earlier references to republican sovereignty. Predictably, the new Constitution was not well received in the republics: voters in nine of the 21 opposed it outright, while another half-dozen either boycotted the referendum or failed to attract the

¹¹Tolz, "Thorny Road Toward Federalism in Russia," pp. 4-5.

¹²Elizabeth Teague, "Russia's Difficult Road Toward Elections," *RFE/RL Research Report*, v.2, no. 41 (15 October 1993), pp.3-4.

¹³Provincial responses to the October dissolution of parliament are reviewed in Elizabeth Teague, "North-South Divide: Yeltsin and Russia's Provincial Leaders," *RFE/RL Research Report*, v.2, no. 47 (26 November 1993)

required 50% of registered voters.¹⁴ As 1994 began, only two regions - Chechnya and Tatarstan - refused to acknowledge the legitimacy of the new constitution.

On 15 February 1994, Yeltsin signed a bilateral treaty with Tatarstan defining the respective roles of Federal and republican authorities. Though the treaty actually granted Tatarstan few real rights beyond those granted to republics in the new constitution, the move satisfied Kazan's long-standing demand to be treated as an equal by Moscow. Having just concluded a protracted exercise in Constitution-drafting, Yeltsin thus re-opened the door for other subjects of the federation to demand special treatment. Despite repeated avowals that no more bilateral "treaties" would be signed, by the end of 1995, Moscow had signed similar documents with six other republics: Kabardino-Balkaria, Bashkortostan, North Ossetia, Sakha/Yakutia, Buryatia and Udmurtia. In 1996, Yeltsin began to offer similar bilateral treaties to the oblasts and krais, concluding deals with Sverdlovsk, Orenburg, Kaliningrad, Krasnodar, and Khabarovsk, as well as the Republic of Komi.¹⁵

From this quick overview, Russian federal policy appears to be essentially ad hoc, determined largely by the personalities of particular leaders at the national and sub-national level. How can we begin to analyze the broader systemic of forces pushing Russia toward greater centralization or decentralization?

A Framework for Explaining Russian Federalism

State-Building as a Center-Periphery Bargaining Game

In the state-building phase of any system containing regional and national levels of government, we can portray the center-periphery struggle as an ongoing bargaining game over the ultimate distribution of powers in the future state. In the post-Soviet Russian case, the actors are the federal authorities in Moscow and regional authorities in the 89 "subjects" of the Russian Federation. Three features distinguish this N+1 bargaining game:

First, the national government is bargaining with each of the federation subjects simultaneously, so results of one negotiation can affect each of the others. Thus, outcomes of any negotiation are important not merely for the substantive policy decision (over taxes, or personnel, or status), but also for the information they convey to other regional actors about the strategy and resources of the center. This information is especially important since the bargaining process is not a one-shot episode, but rather is ongoing.

¹⁴*Izvestiia*, 22 December 1993, p.1 (FBIS-SOV-93-245 p11)

¹⁵This list of treaties is current as of May 1, 1996.

Second, since there is no external enforcement authority, any constitutional structure emerging from this bargaining game must be self-enforcing.¹⁶ In other words, solutions to the center-periphery struggle must be perceived by the players as beneficial to all sides, unless the center is clearly (and unequivocally) prepared to employ force.

Finally, not all actors are equal. Rather, sub-national units are almost always defined prior to the beginning of any state-building negotiations. In the Russian case, an asymmetrical federal structure was defined by the Soviet state for its own purposes (i.e., ethnic policy) and these definitions created sub-national units with wide disparities in resource endowments, population, ethnic composition, etc. While the bargaining process might be simplified if all subnational units were more similar, the disparities among units becomes an important focus of the negotiations themselves. State structure, in other words, is highly "path dependent," with potential future outcomes highly constrained by decisions made at an earlier period.¹⁷

Centralization or peripheralization are not the only potential outcomes of this bargaining game. A hybrid result — an asymmetric federation — is also possible, in which certain units (or groups of units) enjoy higher status and greater powers and privileges.

The Importance of Federal and Regional Strategies

What determines whether a federal "bargain" can be reached, and what shape it may take? Different strategies adopted by federal and regional authorities may promote, or erode, different bargaining equilibria. In this analysis, I will focus on whether the center deals with sub-national actors collectively or individually, and whether these regional actors are themselves capable of collective action.

Federal Strategies: In any iterated game in which one established actor faces multiple challengers, the established player may choose to invest in her reputation in order to deter future aggression. This may involve bearing heavy costs to deter early aggression, in order to

¹⁶The self-enforcing nature of constitutions is a basic tenet of recent work on the positive theory of constitutions. See, for example, Hardin, Russell, "Why a Constitution?," in *The Federalist Papers and the New Institutionalism*, ed. Bernard Grofman and Donald Wittman (New York: Agathon, 1989), 100-120; Peter Ordeshook, "Constitutional Stability," *Constitutional Political Economy* 3 no. 2 (1992): 137-175; and Barry Weingast, "Constitutions as Governance Structures."

¹⁷For an analogous argument, see Douglass North's discussion of the Northwest Ordinance, in *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge Univ. Press, 1990), pp.97-99.

signal future challengers that no concessions will be made and therefore no further challenges should be attempted.¹⁸

In the context of center-periphery bargaining, a reputation-building strategy by the center amounts to establishing uniform and transparent rules for intergovernmental relations and then punishing all transgressions from stated rules. (This has been a major recommendation of World Bank and IMF studies of the Russian fiscal system.¹⁹) Transparent rules need not dictate identical treatment for all regional actors, nor does it dictate greater centralization. Rather, the critical element is that jurisdictional and distributional issues are fixed and not subject to ad hoc bilateral renegotiation. Sub-national actors, in other words, cannot gain special treatment from the center by virtue of unilateral changes in strategy or behavior. Though rules may favor some territories over others, they apply equally to all of them.

A critical problem with transparent and clearly delineated rules is that the reputation of the national government is as likely to be eroded by such an arrangement as enhanced. If, for example, revenue-sharing norms are firm and not open to ad hoc renegotiation, open regional defiance can quickly undermine the center's credibility. If the central authorities are weak, it may be better for their weakness to remain partly obscured by a veil of ad hocery.

Federal authorities fearing that they might not be able to impose universal rules, therefore, might prefer to employ independent bilateral negotiation as an alternative bargaining tactic. As I noted above, Moscow's approach seems to involve "buying" the consent of separatist regions. Bilateral negotiation is also the more common route for producing ethno-federal arrangements. Daniel Elazar has coined the term "foralistic" federalism to describe such an incrementally negotiated state structure, deriving it from the Spanish practice of granting special privileges to individual regional groups or *fueros*.²⁰

Provincial Strategies: As labor unionists are quick to point out, actors bargaining with a common central authority can realize potential gains from bargaining collectively. In the case of federal bargaining, a block of territories that is able to act together can make a far a more

¹⁸The classic references on reputation build on analyses of the "chain store game," in which a national monopolist must confront challenges from regional competitors. See Reinhard Selten, "The Chain Store Paradox," *Theory and Decision* 9 (1978): 127-59; as well as the subsequent discussions in D. Kreps and R. Wilson, "Reputations and Imperfect Information," *Journal of Economic Theory*, 27: 253-279; and P. Milgrom and J. Roberts, "Predation and Entry Deterrence," *Journal of Economic Theory*, 27: 280-312.

¹⁹See, for instance, Christine Wallich, ed., *Fiscal Federalism in Russia* (Washington, The World Bank, 1994).

²⁰Elazar, Daniel J., "International and Comparative Federalism," *PS: Political Science and Politics* 24 no. 2 (1993): 190-195. The practice of negotiating special privileged deals with sub-national units was perpetuated by the post-Franco Spanish regime, which ultimately granted powers beyond those provided for in the constitution to the Basques and Catalans (and, later Galicians and Andalusians).

credible threat of disrupting state affairs than any single territory acting alone; at the same time, agreement with a block of territories will strengthen the center in future negotiations with unaffiliated regions.

Collective action is difficult to achieve, however, especially among territories with different economic and social bases. Ideally, a bargaining block should be large enough to exact concessions from the center, yet small enough to discourage free riding.²¹ In federal bargaining, the problem of coordination is especially acute: the short term distributional game is likely to appear to be zero sum and stronger regions will face constant temptations to either seek a better bilateral deal with the center or to at least ignore transgressions by the center against weaker coalition members.²² Ultimately, the viability of any bargaining coalition will depend upon whether sub-national actors distrust each other less than they each distrust the center. The presence or absence of effective inter-regional coordination mechanisms will be an important factor affecting the degree of inter-regional trust, and hence collective action.

Naturally, the center will not watch passively as sub-national collective action emerges or dissolves. Under some circumstances, federal authorities may prefer dealing with a few large blocks rather than a diverse set of unruly territories. However, since stronger regions implies a weaker center, we might expect federal authorities to seek to limit regional coordination. For instance, they may offer the more powerful regions special deals in order to lure them away from emerging regional coalitions. As I discuss below, this tactic has been an important tool in the center's management of both regions and republics.

*Potential Bargaining Outcomes*²³

The preceding discussion suggests that national and sub-national strategies are likely to be interdependent. More significantly for the purposes of this discussion, the ultimate shape of the federal bargain, if it can be reached at all, will be strongly affected by the strategies chosen. In Figure 1 (page 18) I have attempted to portray the relation between bargaining strategies and structural outcomes.

If territories are unable to bargain collectively, the center can attempt to impose transparent and universal rules, resulting in a unitary state (SW quadrant). If, however, the

²¹For a general analysis of collective action see, of course, Mancur Olson, *The Logic of Collective Action*.

²²Barry Weingast analyzes this "transgression game" in some detail in Weingast, Barry R., "The Political Foundations of Democracy and the Rule of Law," (manuscript, February 1993).

²³An earlier version of this discussion has appeared in S. Solnick, "Torg mezhdú Moskvói i sub"ektami Federatsii o strukture novogo Rossiiskogo gosudarstva: 1990-1995" [Deals between Moscow and Federation subjects over the structure of the new Russian state], POLIS, no.6, 1995.

center engages in ad hoc bargaining with individual regions, it runs the risk of triggering a cascade of escalating demands, as regions respond to inter-regional inequalities (NW quadrant). In extreme cases, this scenario could lead to open conflict -- either among sub-national units or between them and the center -- or to a quasi-feudalistic structure based upon personal networks linking elites at various levels.

If some regions are able to form coalitions for bargaining with the center, they may be able to exact concessions from federal authorities. At the same time, un-aligned regions may seek to strengthen the federal center as a safeguard against domination by emerging blocs. This scenario could lead to a federal bargain incorporating a strong center and/or asymmetrical treatment of regional groups (this corresponds to the central area of Figure 1).

If, however, regional coalitions become stronger and more comprehensive, the role for the center may diminish. With little bargaining leverage left to federal authorities, this scenario could lead either to a peripheralized federal state, or to a confederation (NE and SE quadrants of Figure 1). In extreme cases, like that of the Soviet Union, regional blocks may break away from the federal state altogether.

In the next two sections, I will look first at Moscow's shift between universalistic and selective benefits strategies, and then turn to an examination of the regions' responses to these strategic adjustments.

Moscow's Options: Transparent Rules vs. Selective Rewards

In Figure 2 (page 19) I plot the development of Russian Federal negotiations within the framework developed earlier in this paper. In 1990, the Russian Federation was still essentially a unitary state, run from Moscow with few inter-regional coalitions of any real significance. By 1994, it had developed into a highly asymmetrical federation, with Moscow engaged in extensive selective bargaining with subjects of the federation, and sharp distinctions between the treatment of ethnic republics and non-ethnic regions. In this section I will trace movement along the vertical axis of Figure 2 - federal strategies; I will take up sub-national strategies in the next section.

Moscow's abandonment of universal rules to guide regional policy came swiftly after the Soviet collapse. Several republics won special deals in return for their acceptance of the 1992 Federation Treaties, and regional fiscal policy has also featured both overt and covert tactics for selectively favoring certain regions. In the most explicit variant, preferential tax retention rates or even direct subsidies are granted to some regions as the result of bilateral negotiations. More difficult to assess are those cases in which Moscow simply acquiesces in the unilateral decision of some regions to withhold higher than normal shares of tax revenues.

Such selective treatment invites charges of discrimination from many regional leaders. One fact seems little in dispute, however: predominantly Russian regions emerged by any measure as the most consistent losers under the revenue-sharing schemes in effect from 1992-94, while the ethnic republics emerged as consistent winners. One analyst, reflecting on the center's strategy, suggested that the pattern of selective distribution of benefits may be less a program to distribute political rewards than an effort to conceal political weakness: "Perhaps this is happening because some of the republics comprising Russia have decided not to pay any taxes to the center, and the center, rather than use force, decided to shift the tax burden to others?"²⁴

Only once, after the violent disbanding of Parliament in October 1993, did Moscow seriously attempt to impose a universal and transparent set of fiscal rules. On 27 October 1993, Yeltsin signed a Presidential decree ordering the Council of Ministers to impose harsh sanctions against any regions or republics delinquent in the payment of tax revenues to the center, including suspending all federal financing of activities within the region, embargoing centrally distributed goods (including imports), and confiscating regional accounts in the Russian Central Bank.²⁵ The move was effective, prompting all but Tatarstan and Chechnya to resume paying taxes to the federal budget, and it gave teeth to the new constitution's declaration of equality among federation subjects.

With the signing of the February 1994 treaty with Tatarstan, however, ad hoc bilateral deals were once again the chief mechanism for establishing constitutional order, and they have remained so ever since. The Tatarstan treaty granted both republican and federal authorities rights to set and levy taxes, but left unclear whether the revenue sharing formulas applied to Russia's other territories would automatically apply in Tatarstan. The subsequent deal with Bashkortostan was more explicit in granting that republic the right to operate a "single-channel" tax system, whereby a single lump-sum payment would be sent to Moscow by republic leaders. A similar arrangement was secured by Sakha in its 1995 treaty with the center.

The bilateral "treaties" signed in 1994 and 1995, like the special tax regimes before them and the Federation Treaties before that, were concluded only with ethnic republics. It could credibly claim, therefore, that such deals were the exclusive prerogative of republics, and not

²⁴Dmitrievna, "Political Games Around the Budget."

²⁵"On Measures for the Observance of Legislation of the Russian Federation on Budgetary Arrangements," (27 October 1993), (FBIS-SOV-93-207). The decree was apparently drafted by Boris Fedorov during the previous month's "tax war," but Yeltsin presumably feared alienating regional leaders on the eve of his decisive showdown. See Fedorov's comments in *Rossiiskaia gazeta*, 17 September 1993, p.1.

available for oblasts and kraia. In January 1996, however, Yeltsin signing similar treaties with Sverdlovsk, Kaliningrad and Orenburg oblasts and Krasnodar krai. The floodgates were again open, and all of the remaining 56 predominantly Russian subjects of the federation began demanding their own treaties to clarify center-periphery distributional and jurisdictional questions. In the next section, I consider how the Russian regions were able to break the republics' monopoly on formal agreements with Moscow.²⁶

Regional Responses to Asymmetries

In a separate paper, I discuss how homeland status served as an effective coordinating device for the ethnic republics, enabling them to act collectively to preserve their privileged status.²⁷ I suggested above, however, that an effective coordinating mechanism must also exclude group benefits from non-group members. Why were the Russian regions unable to devise any of their own effective mechanisms to coordinate their bargaining with federal authorities, and why did the center ultimately begin to acknowledge their equal right to bilateral treaties?

Several efforts have been made in recent years to form regional associations that might be able to bargain more effectively with Moscow and serve as an alternative to the exclusive "club" of republics. Few of these have amounted to much more than regional trade associations. The most durable and successful of these ventures, the so-called "Siberian Agreement," served briefly as a conduit for regional opposition to Yeltsin. In the long run, however, the capacity of member regions to deal collectively with the center was undermined by inter-regional economic differences and Moscow's manipulation of the status of autonomous okrugs within the Siberian oblasts.²⁸ The potential benefits of collective action, in other words, were outweighed by the selective benefits controlled by Moscow.

In the wake of the signing of the asymmetric Federation Treaties, several oblasts began plotting to unilaterally elevate their own status to match that of republics. While several regions issued grand declarations - including Vologda, Primorskii Krai, and Krasnoiar'sk - the

²⁶The treaty-signing strategy is apparently the brainchild of Sergei Shakhrai, former Deputy Prime Minister for Regional Policy. Several policy makers in Moscow described his role to me as "decisive" during interviews in July 1995 and January 1996. Shakhrai now heads the commission charged with coordinating the negotiation of bilateral agreements between the federal center and federation subjects. (see *Rossiiskaia gazeta*, 19 March 1996).

²⁷Steven L. Solnick, "Asymmetries in Russian Federal Bargaining," Report to the National Council for Soviet and East European Research, May 1996. See also idem, "Federal Bargaining in Russia," *East European Constitutional Review*, Fall 1995.

²⁸James Hughes, "Regionalism in Siberia: The Rise and Fall of the Siberian Agreement," *Europe-Asia Studies*, v.46, n.7 (1994), pp. 1133-1161

most serious effort came in Yeltsin's old home oblast of Sverdlovsk. The fate of the short lived "Urals Republic" demonstrates both the obstacles to regional integration, and the wide range of options available to federal authorities in Moscow.

In 1990, five oblasts in the Urals region (Kurgan, Orenburg, Perm, Cheliabinsk, and Sverdlovsk) formed a "Greater Urals" association to promote regional development.²⁹ In 1993, these five oblasts criticized the ongoing constitution-drafting process for preserving the distinction between oblasts and republics.³⁰ The first proposals began to circulate for converting the Grand Urals association into a "Urals Republic."

At roughly the same time, federal authorities began seeking to disrupt the unity of the "Urals Five." Prime Minister Chernomyrdin visited Orenburg oblast, bearing a draft decree "On the Socioeconomic Status of Orenburg Province." Such decrees were the standard format for the center to deliver economic rewards (tax breaks, subsidies, investments, free enterprise zone status, etc.) to individual regions. Not long afterward, the governor of Orenburg was heaping scorn on the Grand Urals scheme, claiming that "as soon as the first signs of glorious Yekaterinburg's [Sverdlovsk's] bid for leadership were apparent, the other members of the association lost interest in their offspring."³¹

Undeterred by the defections of its neighbors, on 1 July 1993, Sverdlovsk Oblast declared "that it is upgrading the status of Sverdlovsk Oblast to a republic within the Russian Federation (the Urals Republic)."³² The move was described as a direct response to dissatisfaction with the "existing asymmetrical federal model;" no secessionist claims were advanced.

The Sverdlovsk declaration invited other Urals oblasts to join the republic, but their immediate reactions were guarded.³³ The governor of Perm complained about the ethnic republics' "unjustified advantages and privileges" and declared "ideally our aim is ...exactly the same status the republics have."³⁴ The Speaker of the Cheliabinsk soviet agreed that "the important thing is for us to get rid of discrimination."³⁵ Neither region moved to join,

²⁹Sergei Ryabov, "The Urals Community: Five Plus Three," *Pravda*, 3 Jan 1992, p.3.

³⁰"Divide the Country into Provinces," *Rossiiskaia gazeta*, 19 May 1993, p.1.

³¹Bulat Kalmantaiev, "Who Needs a Ural Republic and Why," *Rossiiskie vesti*, 20 May 1993, p.2. In January 1996, Orenburg was further rewarded with its own bilateral treaty with the center. The treaty was announced by Chernomyrdin in December 1995, on the eve of the Duma elections -- and of Orenburg's gubernatorial elections.

³²*Rossiiskie vesti*, 3 July 1993, p. 1.

³³*Rossiiskaia gazeta*, 6 July 1993, p.2.

³⁴*ibid.*

³⁵*ibid.*

however. The governor of Orenburg, not surprisingly, was more openly skeptical, declaring: "The formation of individual republics will lead to nowhere."³⁶

The response of the republics to the Urals Republic was predictably hostile. Murtaza Rakhimov, soon to become President of Bashkortostan, saw the hand of Moscow behind the declaration from Sverdlovsk: "Who gave them the right to call themselves a Urals Republic? The Bashkirs, Tatars, Chuvash, Maris, Mordvins, and Udmurts lived in the Urals long before the coming of the Russians."³⁷ Perhaps his reflecting his confidence in the ability of republics to reject this challenge, Rakhimov concluded by shrugging off the entire episode: "Many stupid things are being done today."

By mid-July, it was becoming clear that the Urals Republic was not serving to promote collective action among the Urals oblasts. Cheliabinsk officials began planning for a "South Urals Republic."³⁸ By September, however, as the political crisis in Moscow was coming to a head and the wave of tax withholding was beginning to crest, the Urals Five again pledged to consider political integration.³⁹ Meanwhile, a draft "Constitution" for the Republic was drafted by the Sverdlovsk soviet.

On 27 October, the Sverdlovsk soviet approved a "Constitution" for the Urals Republic, which went into force on 31 October.⁴⁰ Coming in the wake of the Presidential victory over Parliament, Sverdlovsk's initiative presented Yeltsin with an unconventional avenue for achieving his stated goal of equalizing all subjects of the federation. Indeed, Yeltsin's initial reaction to the Ural Republic seems to have been mildly supportive.⁴¹ The interpretation received some support from the report that Yeltsin had refused to "unreservedly condemn" the move.⁴²

On 9 November 1993, however, Yeltsin climbed off the fence and dissolved the Urals Republic as well as the Sverdlovsk parliament, citing gross violations of the constitution. On the following day, he fired Eduard Rossel, Sverdlovsk's governor and godfather of the Urals Republic scheme.

The question of why Yeltsin's reaction was so ambivalent remains a mystery, though the timing of events provides a clue. During early November, Yeltsin's team was busy creating the

³⁶ITAR-TASS, 6 July 1993.

³⁷*Nezavisimaia gazeta*, 7 July 1993 p.3.

³⁸*Izvestiia*, 15 July 1993, p.4.

³⁹*Izvestiia*, 17 September 1993, p.2.

⁴⁰The Constitution was published in *Vash Vybor*, no.5, 1993.

⁴¹This, at least, was the interpretation offered by *Kommersant-Daily* on 4 November 1993.

⁴²*Rossiiskie vesti*, 5 November 1993.

draft of the Constitution that would be presented for ratification the following month. The move by Sverdlovsk gave him a choice of mechanisms for "equalizing" subjects of the federation: he could allow all the regions to follow Sverdlovsk's lead and declare themselves republics, or he could preserve the distinction between regions and republics while declaring them to be "equal."

In November 1993, the coalition of republics was still quite strong. Yeltsin probably concluded that the Urals Republic model would be more likely to provoke a hostile response from the republics, from whom he still needed some minimal level of support to gain ratification of his constitution. Since Sverdlovsk was acting alone, dissolving the Urals Republic would have alienated just one region, not 20. Furthermore, even if the Ural Republic survived the opposition of the ethnic republics, the result would have been a new "parade" of upgraded republics, independently advancing a new set of distributional demands. Since Moscow had only just coerced all recalcitrant regions into paying their taxes, there was probably little support for reopening the jurisdictional question, at least between Moscow and the Russian regions.

Thus, Yeltsin's team opted for preserving the distinction between region and republic but declaring all to be equal; once this decision was taken, the Ural Republic was dissolved. The chosen strategy was less risky for Yeltsin precisely because it was perceived as less of a threat to the republics and therefore provoked a milder reaction. The return to special treatment of republics in 1994 suggests that the republics' perception was probably accurate. Had Yeltsin really wished to equalize regions and republics, he could have given Sverdlovsk a green light and capitalized on his newly enhanced reputation to establish clear guidelines for regions to "upgrade."⁴³

Rossel did not let go of the Urals Republic, however. His dismissal by Yeltsin made him a folk hero among the region's voters, and in May 1994 he was elected chairman of the oblast Duma. He continued to press for the creation of a Urals republic until, one year later, Yeltsin agreed to Rossel's demand that gubernatorial elections be scheduled in the oblast. On August 20, 1995, Rossel was elected governor of Sverdlovsk oblast, defeating the Yeltsin-appointed incumbent who had replaced him almost two years earlier. He promptly announced his intention to seek a power-sharing treaty with Moscow, and declared that such a treaty would remove the need for Sverdlovsk to upgrade its status. The Urals Republic was finally dead.

⁴³The importance of clear guidelines for upgrading should be apparent from Figure 2. If the center dealt with regional upgrades on an ad hoc basis, it would have found itself immediately confronting a spiral of escalating demands (see arrow "A").

traded away by Rossel for his political resurrection and a bilateral treaty. In return for these concessions, Yeltsin was able to remove the final significant challenge (outside of Chechnya) to Russia's asymmetrical federal structure.

By the beginning of 1996, two developments were putting further pressure on Yeltsin to extend equal treatment to the Russian regions. First, gubernatorial elections were held in a number of oblasts and krais, providing more governors with job security on a par with that of republican leaders. Further elections were scheduled for later in 1996. Collective action among these elected leaders may prove more difficult to disrupt, especially since the newly reorganized Federation Council provides a forum for their regular assembly. Second, the growing institutionalization of regional economic associations may also promote regional collective action that replaces status cleavages (i.e., oblast-republic) by regional cleavages. To date, however, the political impact of these economic associations remains slight.

Looking Ahead: Elections, Strategies and Federal Outcomes

What does the preceding analysis suggest for the future of center-periphery relations in Russia? On Figure 2, I have indicated several potential paths of development. If Russia pursues the path of "foralistic" federalism - negotiating an endless series of bilateral treaties with subjects of the federation - it may see the present asymmetry give way to an anarchic scramble for benefits (Arrow A). The dangers of this path suggests that Moscow must be seeking means to regularize center-periphery relations (Arrow B).⁴⁴ Movement along this path would almost certainly provoke a reaction from the provinces. It could finally provide the non-ethnic regions with incentives to combine into regional blocs (Arrow D). Alternatively, the center might succeed in cutting off the flow of bilateral treaties, extending economic and political concessions only to those regions strong enough to make credible threats against Moscow (Arrow C). This path might then lead to a Spanish or Indian style federal structure, in which the center is strong enough to redistribute resources but a few territories enjoy special privileges.

⁴⁴As an example of this, during 1995 Moscow routinely replied to calls for further bilateral negotiations with a request to impose a moratorium on such deals until a "Law on Delineation of Jurisdictions Between the Federal and Regional Levels" can be passed. This amounted to a plea to trade bilateral bargaining for multi-lateral bargaining. The plea has thus far fallen on deaf ears, though the law has received two hearings already in the Duma. Yeltsin's March 12, 1996 decree creating a commission to oversee the preparation of further bilateral treaties between federal and regional organs of state power strongly suggests bilateralism will remain the modus vivendum for some time.

The elections of 1995 and 1996 are likely to have a significant impact on the bargaining strategies employed by both national and subnational elites. According to one scenario, regional leaders who have received concessions from Moscow through treaties or other agreements are likely to work hard for Yeltsin's re-election (or support extension of his term) in order to preserve their hard-fought benefits.⁴⁵ The converse scenario is also plausible, however: regional leaders may feel that Yeltsin's promises are no longer credible, especially if he resorts to extra-legal means to remain in office. The ad hoc negotiation precedent established by Yeltsin offers his competitors an opportunity to attempt to **outbid** him for the support of regional elites, especially in the second round of a Presidential contest.

The consequences of the elections on the center's choice of strategy is likely to be even more profound. The Presidential team is unlikely to continue offering selective benefits to regional leaders if it fails to see these concessions translating into electoral support for the incumbent. If Yeltsin manages to remain in office without extra help from those regions he has favored -- as he did after October 1993 -- he may again try to resurrect the idea of universal rules for all federation subjects.

A quick look at the December 1995 results suggests that Yeltsin's strategy of regional cooptation may have been moderately effective. As Table 1 (page 20) shows, Nash Dom Rossiia, the party of Prime Minister Chernomyrdin, did significantly better in territories that signed or were on the verge of signing bilateral treaties. A similar pattern is **not** evident among those regions and republics that were more highly dependent on Moscow to subsidize their regional budget, but these regions tend to be poorer and consequently home to a less satisfied electorate.⁴⁶

Thus, the center may be encouraged to continue striking deals aimed at coopting specific regional leaders, even as collective action among subnational elites seems on the decline. Consulting Figure 2, this suggests movement along arrow (A), toward a war of escalating demands. Since many of the center's concessions have pronounced distributional consequences (subsidies, tax concessions, free enterprise zones, etc.), this spiral of demands may prove difficult to sustain for very long. Moscow may offer special tax or fiscal concessions to a handful of regions, but risks bankruptcy if it extends similar arrangements to all territories. If the logic of this analysis is correct, a new crisis for the federation may present itself sometime this fall, just as a new set of elected governors presents its demands for bilateral agreements and as the bill for the spring's election-driven spending spree comes due.

⁴⁵See, for instance, *Economist* 23 March 1996.

⁴⁶Aleksei Lavrov, "Why subsidized regions voted for the Communists," *Rossiiskie vesti* 10 April 1996.

Figure 1:

Potential Outcomes of Federal "Bargaining"

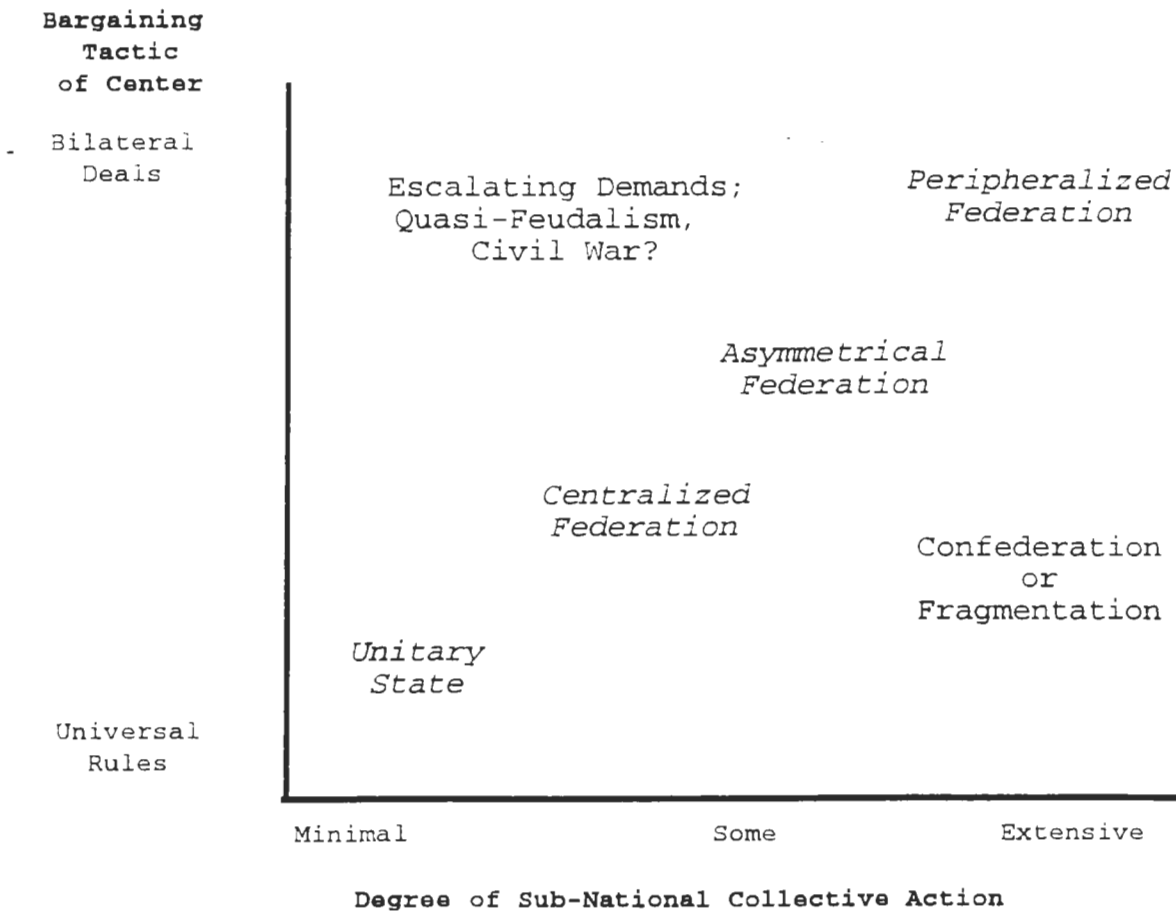


Figure 2:

Paths of Russian Federal Negotiations

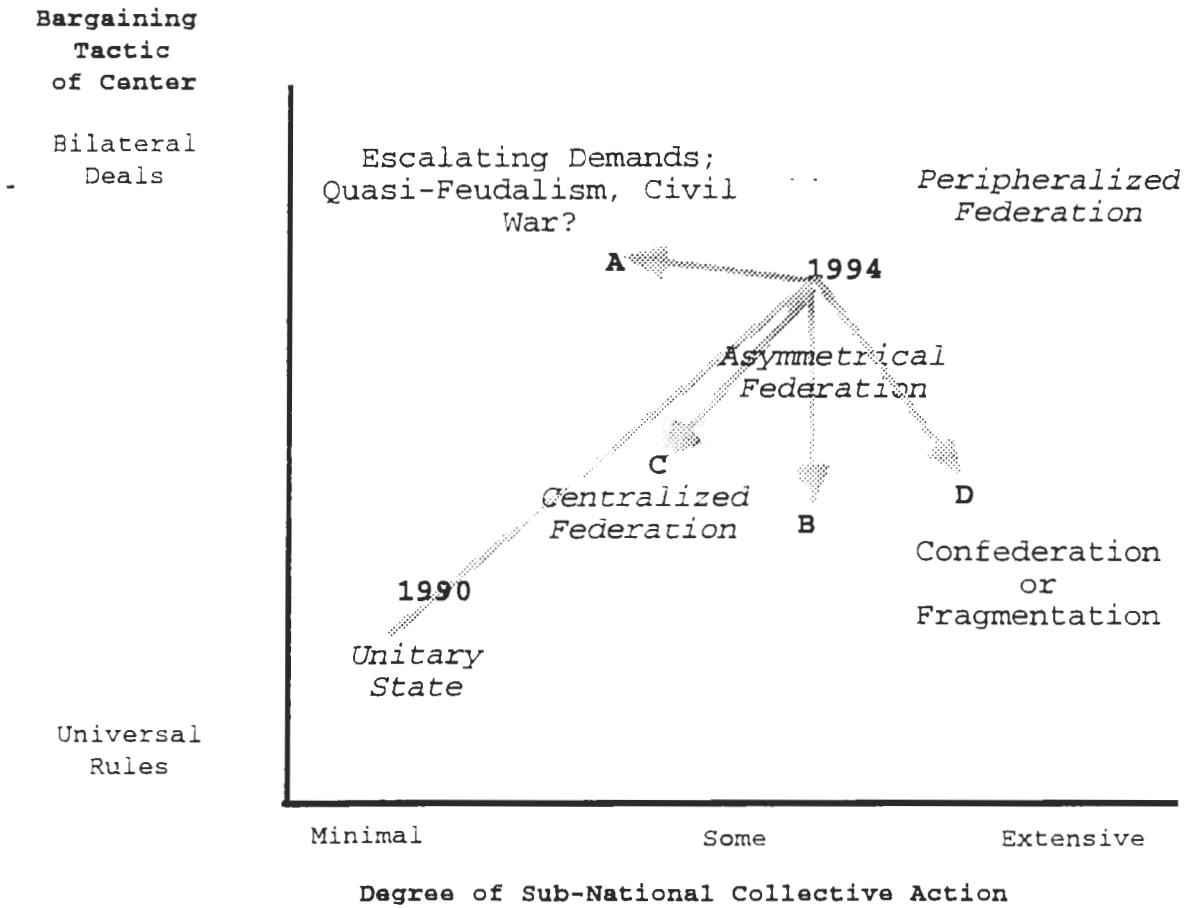


Table 1: "Treaty" vs. "non-Treaty" Electoral Behavior, December 1995⁴⁶

	<u>Turnout</u> (% of Registered Voters)	<u>Support for "Nash Dom Rossiia" (%)</u>
"Treaty regions"*	61.9	12.9
Other Federation subjects	64.9	9.6

⁴⁶ The data are from the official results of the Party-list voting in December 1995. Turnout and voting figures data are for the respective sets of regions taken **as a whole**, based on the aggregate raw data for numbers of registered voters, turnout and Party voting results. These figures are then **added** to yield the results here, rather than averaged across regions. For the Russian Federation as a whole, the turnout was 64.4% and "Nash Dom Rossiia" received 10.13% of the vote.

* The "treaty regions" include those eleven republics, oblasts and krais with bilateral treaties signed either before the election or in January 1996 (under the assumption that the January 1996 treaties were already negotiated by the December election and, in the case of Orenburg and Sverdlovsk, were already publicly announced). These eleven regions are: Tatarstan, Kabardino-Balkaria, Bashkortostan, North Ossetia, Udmurtia, Sakha, Buriatia, Sverdlovsk, Kaliningrad, Orenburg and Krasnodar.