

# **THE NEW FEDERALISM AND THE PARADOXES OF REGIONAL SOVEREIGNTY IN RUSSIA**

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## **Executive Summary**

During the 1990s Russia appeared to be a classic example of the perils of federalism in political transition. Powerful ethnically based republics challenged the center on key reforms and a weak federal government appeared unable to counter their claims to sovereignty. Since the election of 2000, however, regional prerogatives have been substantially curtailed. An assertive center has dramatically reined in much more pliant republics.

If regions were so powerful, how could the center roll back their privileges so quickly? This paper argues that in fact republic sovereignty was seriously limited. Federal authorities retained key controls over local resources, and federal inability to create effective market institutions constrained regional opportunities to develop countervailing external ties.

## **The New Federalism and the Paradoxes of Regional Sovereignty in Russia**

In the past decade, research on democratization has increasingly highlighted the challenges posed by the territorial organization of the state. From this vantage point, questions of federalism, inter-regional and minority rights add more uncertainty to complex negotiations over the shape of the new political order.<sup>1</sup> Where transition includes major economic as well as political reform, federal arrangements add another set of stakeholders to the bargaining over the disposition of state assets. If the federal system is structured along ethnic as well as territorial lines, regime transition may bring the future of the state itself into question.<sup>2</sup> Federations that survive the transition intact often face additional problems – including significant pockets of traditional rule, corruption, and provincial resistance to centrally imposed market reform.<sup>3</sup>

Russia's transition would seem to be a classic example. During the 1990s, ethnic republics and predominantly Russian regions challenged the center on revenue collection, erected barriers to interregional trade, and adopted laws and decrees at variance with federal ones. Regional leaders also pressed the federal government into signing bilateral power-sharing treaties and agreements granting some of them a host of special prerogatives. In fact, regional assertiveness and asymmetrical federalism left many wondering about the continued viability of the Russian state.

Yet regional prerogatives have eroded under Vladimir Putin. With the election of 2000, Putin set out to strengthen the “vertical flow of power,” imposing seven new federal supervisors over Russia’s 89 territorial units, removing regional leaders from the upper house of parliament, and demanding that regional laws/constitutions conform to those at the federal level.<sup>4</sup> Within a year, a number of Yeltsin-era decrees granting regions special privileges had been revoked; federal government budget policies grew more standardized; and noncompliant laws and constitutional provisions were being amended or discarded. Within two years, 28 of the 42 power-sharing treaties had been renounced and federal authorities had hollowed out most of the others.<sup>5</sup>

If regional power had grown uncontrollably under Yeltsin, it was not apparent from the campaign to recentralize under his successor. The recasting of the Russian system thus raises a puzzle: If regional power had in fact grown so substantially, how could the federal government roll it back?

In part, the answer lies in the consolidation of power at the federal level. The reduction of legislative-executive conflict and increased coordination within the executive branch strengthened the federal government's hand and made it less dependent on courting regions.<sup>6</sup> But I will argue here that changes at the center are only part of the explanation. The nature of regional sovereignty was a key element as well.

In fact, regional sovereignty was limited.<sup>7</sup> If we define it as the ability to forge and implement policy in key areas independently of the central government, then it requires alternative resources. Regions must have some ability to raise and spend revenue and to generate foreign trade and investment apart from the federal government. On each of these dimensions, regions in the Russian Federation faced a variety of central constraints. The privileges they won were limited in scope and highly contingent on political battles at the national level. When the battles subsided, so too did regional prerogatives.

The federal government also imposed some other, less obvious constraints. The center's inability to create an effective market infrastructure – with clear and stable property rights, effective legal regulation, and consistent rules for trade and foreign investment – limited the opportunities for sovereignty-minded regions to attract direct foreign investment or develop substantial foreign trade ties for all but the most lucrative products (such as oil, gas, and diamonds). The most lucrative commodities, in turn, were subject to various federal controls, from quotas and licensing requirements to pipeline access. And that left regions with limited prospects for growing an external economic base to counter federal power.

I develop these arguments here by analyzing the experiences of two of the republics that pressed most forcefully for sovereignty during the 1990s -- Tatarstan and Sakha (Yakutia).<sup>8</sup> Tatarstan has been preeminent, pushing the limits of the federal system while declaring its intention to remain in the

federation. Sakha's government has been less inclined to confront the center and more inclined to bargain, based on the personal relationship between Yeltsin and then-republic president Mikhail Nikolaev. These have been two of the most challenging cases in the federal drive to recentralize. If they ultimately experienced a rollback, the question is why sovereignty proved so limited.

My goal is to tie the dilemmas of regional sovereignty to broader issues of regime transition, drawing on a growing body of new research on federal states in the Third Wave. As in that research, I emphasize the interplay between the politics of federal-level transition and regional prerogatives. But the analysis here goes further by exploring how the reach of the federal state created disincentives for regional economic liberalization.

The analysis also provides some insights into more general questions about ethnonationalist development. Given the surge of ethnonationalism in postcommunist states, the assumption is often that ethno-territorial mobilization is a spiral leading almost inevitably to open conflict. In that sense, the effort by Putin -- and acquiescence from below -- run counter to much of the literature in the past ten years. Thus the question of how centrifugal forces are constrained is an important one.

### **Peripheralized Federalism Revisited**

The problem of reformist central states and resistant provinces has become a major theme in research on newly democratic federations. As O'Donnell noted, liberalized central governments may find themselves with substantial parts of the country still under semi- or non-democratic provincial rule. And central governments pursuing stabilization and structural reform may confront provinces with little taste for the economic costs of transition.

In one sense, the gap simply reflects the retention of power by traditional provincial elites. But it also reflects different sets of incentives for central versus regional leaders, especially on the issue of market reform. As Remmer and Wibbels explain, the center faces electoral and often international pressure to correct inflation, budget deficits, exchange rate problems and other economic difficulties.

Regions face the same economic problems, but they also confront collective action dilemmas that privilege the status quo.<sup>9</sup> Reform in any one region is unlikely to affect the national outcome; and even if it did, free riding may be much easier. Daniel Treisman suggests, too, that regional leaders may generate substantial local support simply from challenging the center – a key asset in the face of increased political competition.<sup>10</sup>

The literature offers several examples. Richard Snyder notes that Mexico’s state governments reversed federal neo-liberal reforms in the 1990s by re-regulating part of the private sector.<sup>11</sup> Remmer and Wibbels report that Argentina’s provincial governments in the 1980s and 1990s ran continual deficits, accumulated debts, and “borrowed” further by running arrears to suppliers, pensioners and budget-financed workers.<sup>12</sup> Provincial government defaults in the 1980s forced federal bailouts, thus undermining central-level efforts at reform.<sup>13</sup>

Some provinces also resisted federal government efforts at privatization.<sup>14</sup> Research on Brazil ‘s provinces offers much the same picture of expanded state employment, overspending, and reliance on the federal government for bailouts.<sup>15</sup> Mainwaring and Samuels conclude that decentralization during Brazil’s transition produced “predatory federalism,” impairing the central government’s ability to balance the budget, reduce the national debt, and finance new public-sector investment.<sup>16</sup>

Assessments of Russia’s political and economic reforms in the 1990s offer similar conclusions. Shleifer and Treisman trace many of the problems plaguing the Russian economy to the intergovernmental division of power and property rights. Stoner-Weiss argues that decentralization undermined the institutions essential to a market economy, by impairing the center’s ability to regulate. And Desai and Goldberg link the slowness of enterprise-level restructuring to the connections between insiders and subnational governments.<sup>17</sup> Regions’ “market-distorting” policies are thus well documented.<sup>18</sup>

Yet emphasis on regional defiance and central failure to rein in wayward provinces overlooks two critical issues. One is that central leaders often promote expanded regional rights, especially in political transitions. And a second is that central states unable to provide effective, transparent rules of the game can thereby inhibit regional autonomy.

Since transitions to democracy typically hinge on cleavages within the ruling elite, federal-level reformers often have powerful incentives to court provincial leaders. As elections and legislative politics assume more importance, so too does the ability to deliver key votes. Governors' control over local institutions and ability to mobilize voters can be critical assets.<sup>19</sup> And governors have much to gain. The opening of the political system typically brings a substantial shift of resources from the center to subnational governments, via devolution of federal programs and increased transfers.

Ironically, however, governors in more traditional areas often reap more benefits.<sup>20</sup> Since they generally retain more controls over local politics, they can provide more reliable support for federal-level reformers. Transitions may thus promote an unholy alliance between democratizers at the federal level and more traditional leaders in the periphery.<sup>21</sup>

But regional advantages conferred during a transition may be temporary, to be rolled back once the center itself is consolidated.<sup>22</sup> Unless institutionalized in constitutions, electoral and party systems, they may be difficult to retain. And regions are unlikely to fend off recentralization without some independent local tax powers, a tax base, and external economic ties.

Regional options may also be constrained by the central state's inability to create effective rules of the economic game. Regions' ability to attract outside capital, develop trade, and generate local revenue hinges in part on central policies and controls. If the central government cannot protect property rights, create a workable tax system, and provide stable and transparent rules for trade and investment, regions will have limited success at best in developing outward economic ties. Murky rules or political conflict at the top are disincentives for foreign investors; and opaque, unevenly enforced and changeable trade policies undermine development of external markets.

The center may also inhibit regional opportunities more directly, via controls on development, investment and trade. Federal authorities may regulate licenses for the development of resources, quotas on exports, and access to pipelines. In fact, the most tradable commodities, such as oil, gas, and diamonds, are often the ones most subject to central controls. The central state can thus be ineffectual when it comes to economic coordination, but still "extensive" in its ability to restrict trade and foreign investment -- leaving regions with limited opportunities to develop a significant external base.

The impact of federal policies would depend, though, on the goals of the region's leadership. For a regional government bent on secession, the center's inability to mount effective economic policies would strengthen the local case for defection. Compliance with the center's rules would be irrelevant. Rules governing access to pipelines, for example, could be ignored in favor of predation. But ineffectual central regulation and central constraints on external ties would be a serious drawback for regions seeking home rule within the existing state. Predation would hardly be a draw.

The combination of central weakness and central controls would also affect local incentives to reform. With limited opportunities to expand trade and foreign direct investment (FDI), and central control over revenue sources, sovereignty-minded regions would have few incentives to promote full economic liberalization at home. Full privatization of local enterprises, and reduced local government intervention would diminish local control without necessarily improving economic performance. It could also allow the central government and its affiliated enterprises, banks, etc. to corner local assets. In these conditions, local leaders would find it more useful to retain controls on the economy and focus on increasing their bargaining leverage with the center. The result would be "defensive sovereignty," turned inward rather than outward.

## **Peripheralized Federalism and Russia's Transition**

In some ways, Russia's transition fit well with the experience of other Third Wave federations. Gorbachev's opening of the Soviet system included efforts early on to court regional leaders as allies against conservatives in the Soviet party and government.<sup>23</sup> More overt battles at the top – between Gorbachev and Yeltsin, and then between Yeltsin and parliament – prompted more intensive outbidding for regional support. Russia's federal concessions were also similar to those in several other Third Wave federations: primarily devolution of social and economic programs, increased revenue sharing, and higher transfers. And when the battle at the top waned, Russian federal authorities began rolling back regional privileges.

As in other federations, the concessions were also asymmetric. In this case, the ethnic demarcation of Russia's federal system gave republics more leverage than other, predominantly Russian regions -- especially after the unraveling of the USSR. The asymmetries grew more pronounced in the early 1990s with the uneven timing of subnational elections: republic presidents stood for election well before governors did so in Russian regions.<sup>24</sup> The stakes involved in federal bargaining were also asymmetric. Some republics had saleable resources such as oil, gas, gold and diamonds, at a time when few other Russian regions had such easily marketable products. In fact, resources seemed to be a prime influence on the degree of republic assertiveness.<sup>25</sup>

The impact of political battles at the top showed in the timing and content of concessions to republics – then labeled “autonomous socialist soviet republics” or ASSR’s -- from both Gorbachev and Yeltsin. In the Soviet era the ASSR’s constituted the third tier in the federal hierarchy, below the central (“all-union”) and union-republic levels. Like the union-republics, they were treated as ethnic homelands, with their own constitutions and special – though fewer -- rights for titular nationalities. But they were subordinate to the heavy hand of both the central and union-republic governments. Control over revenues from natural resources was a particularly sensitive issue: as many ASSR/republic leaders argued, resources and revenues flowed up, but benefits seldom flowed back down.

Gorbachev initially courted them in the late 1980s with proposals for limited expansion of local powers. His offers grew more generous as pressures for regional sovereignty and independence mounted from below, and especially as the Russian government grew more assertive. By late 1990, after Russia's new parliament had elected Boris Yeltsin as president and declared Russia sovereign, Gorbachev had prepared a new Union Treaty to include both the union republics and the ASSR's. He offered the ASSR's – now renamed “republics” – the opportunity to sign separately from their superordinate “union” republic. That would help dilute the power of the increasingly combative union republics. It would also deal a particular blow to Boris Yeltsin, since most of the republics/ASSR's were in Russia, where they accounted for a substantial share of Russian oil, gold, diamonds and other resources.<sup>26</sup>

Yet while Gorbachev's offer was appealing, ultimately it had little real effect. It granted the ASSR's a name change but little autonomy. Serious devolution was a poor fit with continued central planning, price controls, and the dominance of branch ministries.<sup>27</sup> It was also problematic politically, since Gorbachev was promising autonomy to two levels of government simultaneously. When union-republic leaders objected to the enhanced status for ASSR's, Gorbachev retreated.<sup>28</sup> Work on the Union Treaty collapsed a few months later with the August 1991 coup.

Faced with the mobilization of republics/ASSR's from below, Yeltsin too proved ambivalent. He was reportedly unenthusiastic about substantial devolution to lower-level regions and localities.<sup>29</sup> Yet support from the republics was vital in his political battles with Gorbachev and with the Russian parliament. That support would prove critical in denying resources to the USSR central government (see below). Republic votes were critical as well, given Yeltsin's slim majorities in winning the Russian presidency in 1990 and on other issues.<sup>30</sup> And many republic leaders were adept at maximizing their political leverage, as their early elections demonstrated.

Given the conflicting pressures, Yeltsin alternated between concessions in the heat of political battle and retrenchment once it passed. Thus when Gorbachev offered to raise the status of the republics/ASSR's in 1990, Yeltsin outbid him, traveling to republic capitals to promote the idea of

republic sovereignty, proposing a federal treaty for Russia to redefine the ties between center and republics, and offering bilateral agreements with them as well.

But implementation was difficult, since USSR agencies still held some critical economic levers, and since the Russian government itself was divided over the issue of local autonomy. Yeltsin's government thus promised devolution but continued to act unitary on many issues. When the USSR crumbled after the August 1991 coup, Yeltsin no longer needed to sustain the outbidding. He thus began to back away from the idea of a federal treaty for Russia's republics and regions.<sup>31</sup>

The retreat was short-lived, however. Increasing hostilities with parliament reignited the bidding war for republic support. One early Yeltsin concession was to sign the Federal Treaty in March 1992, granting special status to the republics, recognizing their sovereignty and rights to local property and resources. Further concessions followed in 1993 as the battle with parliament intensified. Thus, for example, when Yeltsin sought to finalize a new constitution during spring and summer 1993, republic pressure led him to include the Federation Treaty and other special terms for republics in the draft basic law (while also including a provision on the equal status of republics and regions).<sup>32</sup>

But republic and Russian regional leaders proved cool to the draft. By fall, Yeltsin turned to harsher measures -- closing Congress, commissioning a new, more centralized draft constitution that excluded most of the privileges for republics, and calling new parliamentary elections and a referendum on the constitution.

Yeltsin thus won his constitution, but at a cost. Turnout in December 1993 was the lowest of any post-Soviet federal election (55 percent), and below the minimum threshold (50 percent) in several republics.<sup>33</sup> And of those republic residents who did vote, only 48 percent approved the constitution, while 60 percent of voters in Russian regions did so.

In the aftermath, Yeltsin responded with another round of concessions, this time via bilateral treaties and agreements with individual regions. The federal government thus signed power-sharing treaties and various related agreements with 46 constituent units of the federation between 1994 and 1998, in many cases offering special prerogatives to individual regions.<sup>34</sup>

Finally, when his reelection loomed in 1996 and his early ratings were in the single digits, Yeltsin offered more concessions on regional rights. A presidential decree granting regions shares in state enterprises for tax arrears was signed in February, less than four months before the first round of presidential voting. And new power-sharing agreements multiplied, especially with Russian regions. The first two years (1994-95) had brought seven, all with republics.<sup>35</sup> As the presidential election season developed in early 1996, the government signed 16 more, 14 of them with Russian regions. And as Jeffrey Kahn observes, the choice of regions suggested that the Yeltsin government was focused on the presidential election – courting supporters and fence-sitters, while ignoring openly anti-Yeltsin areas.<sup>36</sup>

This appeared to be the high point of efforts to court regions, however. By mid-1997, the value of courting republics had diminished, while the costs of cultivating Russian regions increased. Governors in Russian regions were now elected rather than appointed, unhappy over the concessions granted to republics, and ready to press their own claims to more rights. Yeltsin's second term thus brought some efforts to curtail regional power, and even some trial balloons about eliminating gubernatorial elections and “leveling” regions by redrawing territorial units.<sup>37</sup>

Yeltsin's concessions and retreats thus underscore the contingent nature of expanded republic rights. The concessions, moreover, were valuable in monetary terms but limited in scope. One of the most valuable was the transfer of assets to regions via special decrees or agreements. But many of the most lucrative assets were hedged by federal controls. In other domains, Yeltsin's government decentralized mainly by passing social and economic programs downward, and adjusting shared revenues and transfers to finance them.

Concessions to republic economic rights typically focused on granting a higher proportion of shared revenues rather than granting the power to define and collect taxes independently. Thus, for example, of twelve published budgetary agreements signed during 1994-98, only one granted local autonomy in defining taxes (to the city of St. Petersburg). And most agreements (nine of 12) explicitly recognized the preeminence of federal law in the formulation of budget and tax policy.<sup>38</sup>

Most of the bilateral treaties, too, emphasized federal preeminence. While the first four (with the republics of Tatarstan, Kabardino-Balkaria, Bashkortostan and North Ossetia, respectively) emphasized the “stateness” (*gosudarstvennost’*) of each region, subsequent treaties emphasized the signatory region’s role as a subject of the Russian Federation. And all but the very first, with Tatarstan, committed the region to uphold the federal constitution and laws. In some cases, as in the treaty with Sakha, the region explicitly committed itself to bring its legislation into conformity with federal laws.<sup>39</sup>

Regional economic autonomy was also limited by the center’s inability to clarify rules of the game, a major obstacle to developing foreign trade and attracting substantial foreign capital. Federal customs regulations changed frequently and without warning.<sup>40</sup> Barriers to FDI were legion – from lack of protection for property rights and a convoluted federal tax system to ambiguous and contradictory legislation on foreign investment.<sup>41</sup> The effects were visible in the low level of inward FDI per capita: Russia ranked near the bottom among post-communist states for 1989-98.<sup>42</sup>

Federal agencies also constrained regional economic autonomy more directly, through a variety of controls on production and trade. Federal regulations on licensing, quotas and pipelines shaped regions’ ability to extract and sell local resources. Legislation on development of underground resources required federal agreement for each new license and tender.<sup>43</sup> (For a production-sharing agreement or PSA, approval had to come from the federal parliament itself.) Overseas sales of critical resources such as oil and diamonds were subject to quotas set each year by federal authorities, and approval could be delayed or changed, thus interrupting the flow of regional revenues. Finally access to pipelines was regulated by state-owned firms or those with close ties to the federal government.<sup>44</sup>

The budgetary system was also centralized.<sup>45</sup> The federal government defined the types and rates of taxes that subnational governments could levy.<sup>46</sup> By one estimate, 85 percent of subnational budget revenues came from federally levied taxes; and the remaining 15 percent were levied by subnational governments but still subject to federal controls.<sup>47</sup> Republics and regions carved out flexibility by forging temporary agreements with the center for revenue concessions, and/or by exploiting various loopholes (such as tax offsets, extrabudgetary funds, or “capture” of federal personnel in the locality via provision of material benefits).<sup>48</sup>

In sum, republics and Russian regions faced serious constraints in developing an economic base autonomous from central controls.<sup>49</sup> Resource-rich areas were especially vulnerable: the commodities that were most valuable in the international market were also the ones subject to more central controls.

Of course, the federal government might suffer too from impeding the sale of regional commodities. But the costs were not symmetric. For some resources, such as oil, Moscow had substantial room to maneuver -- multiple fields and multiple producers, and an excess of supply over pipeline/shipping capacity. Delaying approval of a quota for one region would pose relatively little cost to the federal government. Where there were fewer substitutes, as in the case of Sakha’s diamond monopoly, the bulk of government revenues went to the region, not the center.<sup>50</sup> Still, sustained economic pressure could prove politically destabilizing, and so appears to have been used sparingly.

The constraints imposed by the federal government also created perverse incentives for economic liberalization within regions. If sovereignty-minded republics pursued an open, private, market economy while the center’s policies inhibited the supply of foreign capital, they would get capital from other parts of Russia. And much of it was tied directly or indirectly to the federal government. Thus liberalization could leave the region vulnerable to “recentralization” via the purchase or grabbing of assets. Local advocates of a more liberal economy would be at a marked political disadvantage in arguing for full market reform. There would be little payoff in a system where foreign investment was so limited, while Russian investment could be so political.<sup>51</sup>

## **Sovereignty in Tatarstan and Sakha**

Tatarstan and Sakha offer compelling examples of the problems in developing an external base for sovereignty. Both were among the leaders of the sovereignty campaign and also among its biggest beneficiaries. By the mid-1990s both had won sizeable shares of the revenue from overseas sales of local resources (oil in Tatarstan, diamonds, gold, coal and other minerals in Sakha-Yakutia). Both republics also won budget agreements allowing them to retain above-average shares of federal tax revenue; and both signed treaties and more concrete agreements with the federal government. However, it took some years for relations with the federal government to stabilize, and the accommodation began to unravel during Yeltsin's second term.

For Tatarstan, normalization of federal-republic ties came after several years of negotiations and conflicts in the Gorbachev and early Yeltsin eras.<sup>52</sup> Republic leaders had focused initially on raising the region's status within the Soviet federal hierarchy from an ASSR to a union republic.<sup>53</sup> And Gorbachev's offer to sign the Union Treaty separately from Russia fit well with that agenda. But Russian Federation officials were far less enthusiastic about that option, and Gorbachev backed down on it. In fact, the messages from the Russian government were ambiguous. While Yeltsin was offering republics "all the sovereignty you can swallow," other Russian government officials were more negative about the expansion of republic rights.<sup>54</sup> And they continued to act more unitary than federal.<sup>55</sup>

In the face of these contradictory signals, the republic's leadership under Mintimir Shaimiev pursued a mixed strategy. It consistently sought legal affirmation of its status as a sovereign region, and kept options open by negotiating with federal authorities. But it also challenged them repeatedly on republic rights. Thus, for example, when disputes arose over the signing of Gorbachev's Union Treaty and other republic prerogatives in early 1991, Tatarstan boycotted the June 1991 Russian presidential election. When its status and rights seemed under threat in late 1991 and Yeltsin attempted (but failed) to

remove Shaimiev, the republic called a referendum on its sovereignty.<sup>56</sup> When negotiations founded over a bilateral treaty in 1993, the republic boycotted Yeltsin's April referendum and December election. It also withheld tax revenues when negotiations broke down.

Relations with the federal government grew more stable after the adoption of the new federal constitution and the signing of a bilateral treaty and related agreements in 1994. With the question of its status now resolved, Tatarstan promptly held an election and sent deputies to the new Duma. But the accommodation began to erode within a few years. By the late 1990s, republic leaders noted growing difficulties in getting key figures in Moscow to renew agreements, and Russian government leaders expressed open doubts about the value of extending them.<sup>57</sup>

In fact, the 1994 treaty and the various agreements had provided for more orderly relations – for stability in the face of a divided and unpredictable center. But the republic's sovereignty was still limited. The key sources of revenue were defined in Moscow. Oil sales depended on each year's federal quota, and on pipeline access. And federal authorities could withhold or cut both at will.<sup>58</sup> Licenses to exploit local resources also depended on federal approval, as did licenses to sell the republic's military output abroad. Efforts to develop other external ties were hedged by federal regulation as well.<sup>59</sup> Tatarstan's treaty with Moscow, for example, allowed the republic to pursue ties with foreign states, but only within the limits of federal law and federal policy.<sup>60</sup>

In Sakha, relations with the federal government were less confrontational, but no less complicated. Sakha president Mikhail Nikolaev focused on securing a share of the republic's natural resource revenues, via his personal ties to Yeltsin. Nikolaev supported Yeltsin at several critical points, and Yeltsin responded with decrees granting the republic more rights. Thus, for example, Nikolaev backed Yeltsin during the Russian Congress's presidential vote in 1990, and later withheld shipments of diamonds and gold to the USSR government, in support of Yeltsin's efforts to cut payments to Soviet coffers.<sup>61</sup> Yeltsin, in turn, visited Yakutsk, endorsing the republic's declaration of sovereignty and promising to base future relations on treaties and agreements.<sup>62</sup> After the collapse of the Soviet coup in

the fall of 1991, Yeltsin issued decrees granting the republic a share of hard-currency from precious metals, coal and jewel-grade diamonds.<sup>63</sup> He reportedly raised the republic share in order to persuade Nikolaev to sign the Federal Treaty in March of 1992. That year Yeltsin also signed over the assets of the old Soviet diamond monopoly Yakutalmaz, thus giving the republic the bulk of its tax revenues.<sup>64</sup> And Sakha was among the first republics to sign a bilateral treaty with Moscow, in 1995.

But the relationship between the republic and the federal government was difficult nonetheless. The personal relationship did not always work: Yeltsin's decrees did not necessarily guarantee timely federal action; and Nikolaev was highly critical of some Yeltsin initiatives.

Sakha also proved especially vulnerable to the frequent delays and disruptions in payments from the federal government. Given the development pattern inherited from the Soviet era (based largely on resource extraction), it had a population spread across a huge territory, heavy dependence on imported goods, and limited means of transportation to get the goods to distant settlements. It thus relied on federal subsidies to ship supplies to remote areas during the few summer months when the rivers were navigable ("Northern Shipments"). It also faced a dilemma over the timing of payments: goods imported into the republic had to be paid for in advance, while shipments out were not paid for until they reached their final destination.<sup>65</sup> Republic officials complained that federal funds never arrived on time and never in full.<sup>66</sup>

The relationship with Moscow grew still more complicated after Boris Yeltsin's reelection in 1996. Federal officials complained openly about fiscal irregularities in the republic, and refused to extend agreements signed earlier.<sup>67</sup> Yeltsin also cancelled part of his earlier resource-export concession: the republic's right to buy a share of jewel-grade diamonds at cost and sell them at world market prices. The personal relationship cooled as well. Nikolaev reportedly found it far harder to gain access to Yeltsin.

Even when relations with the federal government were closer, however, the republic was still subject to an array of federal constraints. Sakha had extensive resources waiting to be developed; but licenses to extract them had to come from Moscow. And as one former republic official noted,

permission came with difficulty if at all, even after the federal government had formally agreed to a more liberal licensing regime.<sup>68</sup> Production-sharing agreements required even more layers of federal approval, from the Duma as well as the executive branch.

Perhaps the biggest federal lever of all was the center's quota for overseas diamond sales each year. Alrosa officials and republic leaders complained that the quota was often delayed – sometimes by several months.<sup>69</sup> In 1997, as federal pressure on the republic increased, federal approval did not come until July.<sup>70</sup> Since Alrosa accounted for the bulk of republic budget revenues, delays were extremely costly.

Thus while the approach to sovereignty was different in each republic, both Tatarstan and Sakha ran up against a mix of federal constraints. The combination made it extremely difficult to develop an external economic base, despite efforts by both governments to court foreign ties. Tatarstan's leaders made a concerted attempt, including contacts with the U.N. and E.U., agreements with individual countries, and the opening of foreign trade missions overseas.<sup>71</sup> Compared to other regions, they were relatively successful in attracting foreign direct investment: Tatarstan ranked 18<sup>th</sup> among Russia's federal subjects in cumulative total FDI for 1995-99.<sup>72</sup> But Russia's FDI per capita was extremely low in comparison with other post-communist states, and the vast bulk of it went to Moscow and St. Petersburg. Thus Tatarstan's relatively high ranking masked a relatively low absolute level of investment.<sup>73</sup> That also reflected the condition of the local economy, with its controlled market and limited privatization. But even with a more liberal local system, Russia-wide problems would still prove a deterrent to foreign capital.

Sakha faced more problems in its attempts to develop external ties. Nikolaev promoted the Northern Forum, a consortium of regional governments devoted to international cooperation on economic and social issues. And the Sakha government sought foreign investors to develop local resources and help

build the infrastructure to ship them. But distance, lack of infrastructure, and formidable local climatic conditions all made it difficult to attract funds. So, too, did the slow pace of local market reforms. Sakha thus ranked among the bottom third of all Russia's subjects for FDI during 1995-99.<sup>74</sup>

### **The Impact of Putin's New Federalism**

The contingent nature of federal concessions and the reach of the federal government left regions vulnerable to the reassertion of central control under Putin. But it took several years and a financial crisis for federal initiatives to crystallize.

Federal authorities had complained about discrepancies between federal and regional constitutions/laws at least since 1994, and had criticized market-distorting regional policies repeatedly. But legislation to regulate center-regional relations was slow in coming. New legislation emerged in 1997, calling for local self-government (in part to undercut regional autonomy from below).<sup>75</sup> New legislation in 1999 required parliamentary approval for adoption or extension of power-sharing treaties, and called for the existing ones to be brought into conformity with federal law. Another new law codified central control of foreign relations.

But enforcement was problematic. While some aspects of republic sovereignty were challenged in the courts, the decisions could be ambiguous, and typically had limited impact, if any, beyond the immediate region involved.<sup>76</sup> The budgetary system was formally centralized, but regional governments had ways of exploiting its loopholes.

Pressures to strengthen federal enforcement intensified by the end of the 1990s. As Steve Solnick argues, regions were becoming an alternative power base for politicians with national aspirations, and were thus viewed as a threat in the Kremlin.<sup>77</sup> In addition, the 1998 financial crisis provided a powerful inducement to recentralize control over revenues.

Putin's contribution was to create a new regime of enforcement. New legislation strengthened federal authority to remove governors and dismiss regional legislatures. Federal officials also gained expanded powers to challenge regional laws. According to Gordon Hahn, in 2000 the federal Ministry of Justice began refusing to register new regional laws that did not conform to federal ones.<sup>78</sup> Without registration, the laws would have no force. Federal prosecutors were also encouraged to be more active in challenging regions, and they gained more leeway to do so: they could now go to courts of general jurisdiction rather than the slower and overburdened Constitutional Court. The federal government also increased its control over the appointment of prosecutors, judges and police officials.

Control over fiscal resources grew more centralized as well. Old bilateral budget agreements with individual regions were allowed to lapse or were simply superseded by new federal budget legislation. And the new legislation shifted more revenue to the federal level.<sup>79</sup> The federal government also closed some of the key loopholes that had allowed regional authorities to carve out resources in the past.

Regions were now pressured to join the federal treasury system, rather than allowing local banks to manage budget funds. Federal authorities also reined in extra-budgetary funds and offsets; and took steps to reduce regional "capture" of federal employees in the localities. Federal controls were broadened in other areas as well, from the rules governing political parties, to the media, and more.<sup>80</sup> And federal authorities reclaimed some assets that had earlier been left to regional governments.

Regional responses varied, however. As Nelson and Kuzes conclude, subsidized regions complied more readily with new federal demands, while "donor" regions offered more resistance.<sup>81</sup> And republics proved more resistant than Russian regions. In Tatarstan, Shaimiev praised the idea of stronger vertical coordination, but he and other republic officials were reluctant to cede republic sovereignty. They pointed to various problems with Russia's legislation and constitution, and called for joint efforts to

revise them. In Sakha, republic officials – especially in the legislature – also proved reluctant to concede sovereignty or the right to local resources. Changes in local legislation and in the constitution were slow in coming, and complicated by overt tensions between Nikolaev and the republic parliament.<sup>82</sup>

The federal response also differed between the two regions. Federal strategy toward Kazan' combined some substantial carrots with several critical sticks. Putin negotiated personally with Shaimiev on key questions involving the republic constitution, budgeting, and other issues.<sup>83</sup> He also provided political support for Shaimiev, offering him the post of Federal Representative in the Volga region (which Shaimiev declined) and then facilitating his run for a third term.<sup>84</sup> Putin proved receptive, too, to a republic proposal for joint conciliation commissions to develop compromise versions of federal and republic laws. And he asked Shaimiev to develop a new conception for federal relations as a vice-chairman of the newly created State Council.

The carrots, however, were offset by several major sticks. Shaimiev's proposals for rethinking the federal system were tabled in the State Council (for being too radical), while Shaimiev was rotated off its executive committee. Key features of the republic electoral system that had helped Shaimiev to consolidate power were challenged and changed for upcoming legislative elections.

And efforts to preserve the republic's sovereign status ultimately failed. A federal-republic conciliation commission worked for several months in 2000-01 on new legislation, but was preempted when prosecutors went to court to invalidate the corresponding republic laws.<sup>85</sup> Many of the republic's divergent laws and constitutional provisions were thus slowly modified to meet federal standards, sometimes after several rounds of challenges by prosecutors.

Moreover, even when Putin and Shaimiev agreed informally on compromise formulations, prosecutors continued to challenge them.<sup>86</sup> One key example was Tatarstan's claim to sovereignty: the republic's 1990 sovereignty declaration, 1992 referendum, and 1994 treaty with Moscow had directly or indirectly emphasized its equal status with Russia. In its amended constitution of 2002, however, the republic now claimed residual sovereignty only, in areas not under federal or joint federal-regional

jurisdiction.<sup>87</sup> Given the breadth of the federal government's jurisdiction, that left rather little to the republic. Prosecutors, however, challenged even this more limited formulation of republic sovereignty, claiming that the term could only apply to Russia as a whole. Other regional legislation was also revised to conform to federal law, ranging from the level of fines for civil infractions (lowered), to the distribution of social welfare benefits (more diffuse).<sup>88</sup>

Interbudgetary relations changed too. The budget agreement signed in 1994 ended as of January 2001, thus eliminating the special revenue-sharing rates that the republic had won. And the republic's share of tax revenues retained reportedly decreased (by some estimates, the republic's share went from 60 to 40 – 45 percent). The republic did not lose out entirely, however. The federal government allocated funding for major projects such as the renovation of Kazan for its upcoming 1000-year anniversary, and for other public works. But now more decisions were taken in Moscow.

In Sakha, federal efforts to promote a unified legal space under Putin involved far more stick. Relations with the federal government that were strained during Yeltsin's second term grew even more contentious under Putin. Flooding in the river port of Lensk in May 2001 set off a bitter debate over who was to blame for lack of flood control measures and who would pay for repairs (rivers come under federal jurisdiction). The republic presidential election in 2001 prompted an even more dramatic conflict as Nikolaev maneuvered for a third term and the Kremlin withheld its support. The republic's ownership of Alrosa, Sakha's diamond producer, also came under fire from federal authorities.

As for bringing the republic constitution into line, however, the republic legislature was slow to act while Nikolaev remained as president. Deputies did modify some articles of the constitution, and revoked some republic legislation. But they were far more reluctant to renounce the republic's sovereignty or its claim to ownership of its resources.<sup>89</sup> They were also reluctant to amend election procedures, given their ongoing tensions with Nikolaev. Under existing republic rules, he was ineligible to run for a third term. By federal rules, he could run. Ultimately, it was the Kremlin that eased him out of the race.

Still, resistance in the legislature did not mean that sovereignty was intact. The republic government had issued a decree in November 2000 suspending noncompliant laws.<sup>90</sup> The federal government had already backed away from its agreements with the republic; new federal legislation would have overridden them in any case. A last-minute effort to preserve republic control over major oil and gas deposits in 2001 was also overridden by federal authorities. And federal authorities slowly increased their control over the diamond monopoly, by changing their representation on Alrosa's supervisory board and claiming a larger portion of the company's shares.

The inauguration of a new president in early 2002, with the very visible backing of Moscow, appears to have increased the pressure and the potential rewards for bringing the local constitution into line. Republic legislators amended key articles of the constitution, including the claim to sovereignty, and federal authorities responded with a variety of promises to help develop the republic economy.<sup>91</sup> Putin also agreed to extend Sakha's bilateral treaty, though in a much –amended form.

Thus the retraction of regional privileges was slower and more difficult in Tatarstan and Sakha than in many other regions. But ultimately both republics lost many of the key prerogatives they had won in the 1990s.

## **Conclusions**

This essay began by asking how federal authorities in Russia could roll back the privileges of powerful, sovereignty-minded republics. My argument here is that provincial power was far more limited than our images of “wayward regions” imply. Sovereignty hinged on divided central elites courting provincial leaders – with limited and temporary gains. It brought more revenues to republic coffers and facilitated internal consolidation, but it left many key levers in central hands. Paradoxically, the center’s inability to provide effective economic regulation also proved a drawback to regional autonomy, by limiting real opportunities to develop external economic ties.

A second paradox was that the conditions that made economic sovereignty attractive for a given republic – the possession of highly saleable commodities such as oil, gas and diamonds – also left it subject to central controls. These were precisely the commodities that required federal licenses to develop, and continuing federal approval for sales abroad.

As a result, sovereignty proved to be more internal than external. It brought republics a share of resources that had been denied under the old Soviet system, and thus allowed them to ease some of the strains of transition. But the contingent nature of federal concessions, coupled with the constraints on external ties, also put a premium on internal consolidation. Sovereignty thus proved to be mostly defensive, focused heavily on limiting the fallout from federal policies. This, in turn, created a third paradox: what made sovereignty work domestically (continued government management of the economy and of political competition) was the opposite of what would make it work externally. In these conditions, the quest for sovereignty proved to be an easy target for recentralization.

## ENDNOTES

<sup>1</sup> Dankwart Rustow, "Transitions to Democracy: Toward a Dynamic Model," *Comparative Politics*, 2 (1970), 337-64.

<sup>2</sup> Philip Roeder, "Peoples and States after 1989: The Political Costs of Incomplete National Revolutions," *Slavic Review*, 58 (winter 1999), 854-82.

<sup>3</sup> Guillermo O'Donnell, "On the State, Democratization and Some Conceptual Problems: A Latin American View with Glances at Some Postcommunist Countries," *World Development*, 21 (1993), 1355-69.

<sup>4</sup> For overviews, see Robert Orttung, "Putin's Main Accomplishment is Centralization," *EWI Russian Regional Report*, East-West Institute, 6 (December 19, 2001); Daniel Kempton, "Russian Federalism: Continuing Myth or Political Salvation?" *Demokratizatsiya*, 9 (2001), 201-42.

<sup>5</sup> [www.cityline.ru:8084/politika/reg/dogovory.html](http://www.cityline.ru:8084/politika/reg/dogovory.html)

<sup>6</sup> Thomas Remington, "Putin and the Duma," *Post-Soviet Affairs*, 17 (2001), 285-308; and Regina Smyth, "Building State Capacity from the Inside Out: Parties of Power and the Success of the President's Reform Agenda in Russia," *Politics and Society*, 30 (2002), 555-78.

<sup>7</sup> One set of constraints has already been emphasized in detail elsewhere. Most republics lack external borders and/or a numerical majority for the titular nationality, making it difficult to mount a credible threat of separation. Gail Lapidus and Edward W. Walker, "Nationalism, Regionalism and Federalism: Center-Periphery Relations in Post-communist Russia," in Gail Lapidus, *The New Russia: Troubled Transformation*. (Boulder: Westview Press, 1995), 79-114

<sup>8</sup> I conducted interviews in with government officials, academics and journalists in both regions from 1997 through 2002. In keeping with provisions governing human subjects research, I have omitted the names of the individuals I interviewed.

<sup>9</sup> Karen L. Remmer and Erik Wibbels, "The Subnational Politics of Economic Adjustment: Provincial Politics and Fiscal Performance in Argentina." *Comparative Political Studies*, 33 (May 2000), 419-51.

<sup>10</sup> Daniel Treisman, "Political Decentralization and Economic Reform: A Game-Theoretic Analysis," *American Journal of Political Science*, 43 (1999), 488-517.

<sup>11</sup> Richard Snyder, "After Neoliberalism: The Politics of Reregulation in Mexico," *World Politics*, 51 (1999), 173-204.

<sup>12</sup> Remmer and Wibbels, pp. 429-34; Sebastian M. Saiegh and Mariano Tommasi, "Why Is Argentina's Fiscal Federalism So Inefficient?" 1999, ([www.isr.umich.edu/cps/pewpa/archive\\_99/19990003.pdf](http://www.isr.umich.edu/cps/pewpa/archive_99/19990003.pdf)); William Dillinger and Steven B. Webb, "Fiscal Management in Federal Democracies: Argentina and Brazil," ([www.worldbank.org/html/doc/publications/workpapers/wps2000series/wps2121/wps2121.pdf](http://www.worldbank.org/html/doc/publications/workpapers/wps2000series/wps2121/wps2121.pdf)).

<sup>13</sup>Ibid.

<sup>14</sup> Allyson Lucinda Benton, "Federalism and the Stability of Provincial Party Systems in Argentina: Regional Development Policies, Fiscal Resources, and Provincial Politics During Economic Reform," American Political Science Association Annual Meeting, August, 2000, Washington, D.C., 21-22.

<sup>15</sup> Dillinger and Webb.

<sup>16</sup> Scott Mainwaring and David Samuels, "Federalism, Constraints on the Central Government and Economic Reform in Democratic Brazil," Kellogg Center Working paper #271, November 1999.

<sup>17</sup> Andrei Shleifer and Daniel Treisman, *Without a Map: Political Tactics and Economic Reform in Russia*. (Cambridge, Mass. and London: MIT Press, 2001), p. 113; Kathryn Stoner-Weiss, "W(h)ither the Central State? The Regional Sources of Russia's Stalled Reforms," ([www.princeton.edu/~kesw/whither%20the%20state%20sub2.pdf](http://www.princeton.edu/~kesw/whither%20the%20state%20sub2.pdf)); Raj M. Desai and Itzhak Goldberg, "The Politics of Russian Enterprise Reform: Insiders, Local Governments, and the Obstacles to Restructuring," *The World Bank Research Observer*, 16 (2001), 219-40. Not all assessments are negative, however. Some authors argue that asymmetrical federalism helped ease the problems of transition from the old, hyper-centralized system. See Mikhail Filippov and Ol'ga Shvetsova, "Asymmetric Bilateral Bargaining in the New Russian Federation: A Path-Dependence Explanation," *Communist and*

*Post-Communist Studies*, 32 (March 1999), 61-76; and Mikhail Alexseev, "Decentralization versus State Collapse: Explaining Russia's Endurance," *Journal of Peace Research*, 38 (2001), 101-6.

<sup>18</sup> Darrell Slider, "Russia's Market-Distorting Federalism," *Post-Soviet Geography and Economics* 38 (October 1997), 445-60.

<sup>19</sup> Frances Hagopian, *Traditional Politics and Regime Change in Brazil*. (New York, Cambridge University Press, 1996); David Samuels and Fernando Abrucio, "Federalism and Democratic Transitions: The 'New' Politics of the Governors in Brazil," *Publius*, 30 (2000), 43-61.

<sup>20</sup> Hagopian, p. 16, defines "traditional" regions as those with a narrow concentration of political power, restricted access to decision-making; hierarchical channels of political representation; and limited political competition.

<sup>21</sup> See, e.g., David Samuels and Richard Snyder, "The Value of a Vote: Malapportionment in Comparative Perspective," *British Journal of Political Science*, 31 (2001), 651-71; Alfred Stepan, "Brazil's Decentralized Federalism: Bringing Government Closer to the Citizens?" *Daedalus*, 129 (spring 2000), 145-69.

<sup>22</sup> Alfred P. Montero, "After Decentralization: Patterns of Intergovernmental Conflict in Argentina, Brazil, Spain, and Mexico," *Publius*, 31 (fall 2001), 43-66

<sup>23</sup> See, e.g., Anatol Lieven, *The Baltic Revolution: Estonia, Latvia, Lithuania and the Path to Independence*. (New Haven: Yale University Press, 1993), pp. 220-24; Donna Bahry, "The Union Republics and Contradictions in Gorbachev's Economic Reform," *Soviet Economy*, 7 (1991), 215-55.

<sup>24</sup>Tatarstan's Mintimir Shaimiev and the mayors of Moscow and St. Petersburg were the first regional/local leaders to stand for direct election, the same day as Boris Yeltsin -- June 12, 1991. Ten other republics held presidential elections in the next year. The majority of Russian regions had gubernatorial elections only in 1995-97. Michael McFaul and Nikolai Petrov, eds., *Politicheskii almanakh Rossii 1995*. (Moscow: Moskovskii Tsentr Karnegi, 1995), 11-23; Daniel Treisman, *After the Deluge: Regional Crises and Political Consolidation in Russia*. (Ann Arbor: University of Michigan Press, 1999).

<sup>25</sup> Daniel Treisman, "Russia's 'Ethnic Revival': The Separatist Activism of Regional Leaders in a Postcommunist Order," *World Politics*, 49 (1997), 212-49; Kathleen Dowley, "Striking the Federal Bargain in Russia: Comparative Regional Government Strategies," *Communist and Post-Communist Studies*, 31 (1998), 359-80.

<sup>26</sup> Yakutia alone accounted for 18 percent of Russia's land mass and virtually all of its diamonds.

<sup>27</sup> In practice, however, the "war of laws" between USSR and union-republic authorities left lower-level authorities a good deal of discretion about which rules to follow.

<sup>28</sup> Roman Solchanyk, "The Draft Union Treaty and the 'Big Five,'" RFE/RL *Report on the USSR* (May 3, 1991), 16-18 . According to a Tatarstani official who participated in the negotiations, Gorbachev promised that representatives of the republic would attend the signing scheduled for August 1991 but sign the treaty itself at a later date. Personal interview, Kazan', February 2002.

<sup>29</sup> Robert Sharlet, "The Prospects for Federalism in Russian Constitutional Politics," *Publius*, 24 (1994), 115-27; Aleksandr Arinin, "Problemy razvitiia Rossiiskoi gosudarstvennosti v kontse XX veka," in M. N. Zuboglo et al, editors, *Federalizm vlasti i vlast' federalizma*. (Moscow: TOO Inteltek, 1997), 7-107.

<sup>30</sup> See Regina Smyth, "Ideological vs. Regional Cleavages: Do the Radicals Control the RSFSR Parliament?" *Journal of Soviet Nationalities*, 1 (fall 1990), 112-57.

<sup>31</sup> Arinin, pp. 52-56.

<sup>32</sup> Efforts to draft a new basic law had begun in 1990, but had been slowed by executive-legislative battles and by opposition from various quarters. See Vera Tolz, "Drafting the New Russian Constitution," *RFE/RL Research Report*, 2, (July 16, 1993), 1-12.

<sup>33</sup> Lapidus and Walker, pp. 99-101.

<sup>34</sup> A list of the treaties and the dates they were signed is available at [www.cityline.ru:8084/politika/reg/dogovory.html](http://www.cityline.ru:8084/politika/reg/dogovory.html).

<sup>35</sup> The first seven republics seemed to fall into one of two groups – either rich in resources and pressing for more rights to them (such as Tatarstan, Bashkortostan, Udmurtia and Sakha) or located in the North Caucasus and influenced by events in Chechnya (North Ossetia, Kabardino-Balkaria).

<sup>36</sup> Jeffrey Kahn, *Federalism, Democratization and the Rule of Law in Russia*. (New York: Oxford University Press, 2002), p. 162.

<sup>37</sup> Kempton, “Russian Federalism.”

<sup>38</sup> The only exceptions were Tatarstan, Bashkortostan and Udmurtia. The other two republics (Sakha and Komi) and all of the Russian regions explicitly recognized the preeminence of federal law. Guboglo, *passim*.

<sup>39</sup> Ibid.

<sup>40</sup> For overviews, see Peter Kirkow, “Foreign Trade Arrangements in Russia and its Regions: Relying on Foreign Capital to Generate Growth?” *Post-Communist Economies*, 11 (1999), 79-98; and the U.S. Trade Representative’s “1997 National Trade Estimate Report on Foreign Trade Barriers,” ([www.ustr.gov/pdf/1997\\_russia.pdf](http://www.ustr.gov/pdf/1997_russia.pdf)) and “2000 National Trade Estimate Report on Foreign Trade Barriers,” ([www.ustr.gov/html/2000](http://www.ustr.gov/html/2000)).

<sup>41</sup> Ibid.

<sup>42</sup> Peter Westin, “Foreign Direct Investments in Russia,” *Russian Economic Trends*, no. 1 (1999), 36-43. The EBRD estimated Russia’s FDI at less than \$50 per capita per year during 1996-1999 – lower than almost all other East European and former Soviet states except Moldova, Ukraine, Uzbekistan and Tajikistan. See European Bank for Reconstruction and Development, *Transition Report 2000: Employment, Skills and Transition*. (London: EBRD, 2000), p. 88.

<sup>43</sup> Gary N. Wilson, ‘Crude’ Federalism, *Oil Politics and the Evolution of Intergovernmental Relations in Post-Soviet Russia*, Ph.D. Dissertation, University of Toronto, 2000.

<sup>44</sup> On oil quotas and pipelines, see S. Peregudov, *Krupnaia Rossiiskaia korporatsiia kak sotsial'no-politicheskii institut*. (Moscow: Institut mirovoi ekonomiki i mezhdunarodnykh otnoshenii, 2000); and *Izvestia*, April 21, 1999, p. 1.

<sup>45</sup> Lev Freinkman, Daniel Treisman, and Stepan Titov, *Subnational Budgeting in Russia*. (Washington: the World Bank, 1999); A. Lavrov, J. Litwack, D. Sutherland, “Reforma mezhbiudzhetnykh otnoshenii v Rossii: ‘federalizm, sozdaiushchii rynok’,” *Voprosy ekonomiki*, no. 4 (2001), 32-51; Peter Kirkow, *Russia’s Provinces: Authoritarian Transformation versus Local Autonomy?* (Hampshire and London: Macmillan, 1998), pp. 62-65.

<sup>46</sup> Control over republic and regional expenditures was less detailed -- a substantial change from the Soviet era. Subnational governments did, though, face a different kind of constraint on the spending side, via the large number of unfunded federal mandates.

<sup>47</sup> Lavrov, Litwack, and Sutherland, pp. 32-51.

<sup>48</sup> Daniel Treisman, “Russia’s Taxing Problem,” *Foreign Policy* no. 112 (fall 1998), 55-60. Shleifer and Treisman, ch. 6, report Yeltsin had issued a decree granting regions the right to levy additional taxes during 1994-96. But it is not clear how much extra revenue this yielded, given the high tax burdens already in place under federal law.

<sup>49</sup> Philip Hanson, Sergei Artobolevskiy, Olga Kouznetsova, and Douglas Sutherland, “Federal Government Responses to Regional Economic Change” in Philip Hanson and Michael Bradshaw, eds., *Regional Economic Change in Russia*. (Cheltenham/Northampton: Edward Elgar, 2000), pp. 97-132.

<sup>50</sup> Most of the budget revenue from the diamond monopoly after 1992 came from rental payments on the assets of the old Soviet firm Yakutalmaz, paid to the government of Sakha. Revenues from the diamond “markup” – the share of diamonds allotted to the republic government at cost during 1992-97 and sold overseas at world market prices – went into republic government extra-budgetary funds.

<sup>51</sup> This is not to suggest that the obstacles to foreign investment were solely created in Moscow. Incumbent regional leaders could be extremely negative toward outside capital, as Philip Hanson notes in “Understanding Regional Patterns of Economic Change in Post-communist Russia” (n.d.). I am arguing that the problems in the Russian economic system as a whole gave a political edge to the protectionists and undermined advocates of a more open regional economy.

<sup>52</sup>Edward Walker, "The Dog That Didn't Bark: Tatarstan and Asymmetrical Federalism in Russia," *The Harriman Review*, 9 (winter 1996), 1-35.

<sup>53</sup> Elise Giuliano, "Who Determines the Self in the Politics of Self-Determination? Identity and Preference Formation in Tatarstan's Nationalist Mobilization," *Comparative Politics* 32 (April 2000), 295-316.

<sup>54</sup> See, e.g., comments by then-Russian Federation speaker Ruslan Khasbulatov in *Nezavisimaya gazeta*, November 22, 1991, p. 3.

<sup>55</sup> Sergei Kondashov, *Nationalism and the Drive for Sovereignty in Tatarstan, 1988-1992*. (New York, St. Martin's, 2000), 100-105.

<sup>56</sup> Shaimiev had sided with the organizers of the August 1991 coup, to the consternation of the Yeltsin camp. Yeltsin sent an emissary to Kazan later that fall to preside over Shaimiev's dismissal; but popular and parliamentary support overcame the attempt to remove him.

<sup>57</sup> Steven Solnick, "Federalism and State-Building: Post-Communist and Post-Colonial Perspectives," in Andrew Reynolds, ed., *The Architecture of Democracy: Constitutional Design, Conflict Management and Democracy*. (New York: Oxford University Press, 2002), pp. 171-205.

<sup>58</sup> Federal authorities restricted pipeline access in 1993, for example, to put pressure on the republic. Emil Pain, *Moskovskie novosti*, no. 23, (June 5-12, 1994), p. A5. They also restricted access in 1998, to pressure the republic oil giant Tatneft (and other oil majors) over taxes. *Kommersant'* (July 2, 1998), p. 2, in *Current Digest of the Post-Soviet Press* 50 (July 29, 1998), p. 14. There was additional talk of cutting access in 1999, in response to Shaimiev's collaboration with other regional officials on a new national party. *Novaia vecherka* (Kazan'), July 30, 1999, p. 1.

<sup>59</sup> Mikhail Alexeev, "Russia's Periphery in the Global Arena: Do Regions Matter in the Kremlin's Foreign Policy?" *PONARS Policy Memo* 156, November 2000.

<sup>60</sup>Guboglo, pp. 247-52.

<sup>61</sup> *Tuimaada Sanata*, (Yakutsk) Oct 20, 2000, pp. 4-5; Filippov and Shvetsova, pp. 61-76; *Ekho stolitsy* (Yakutsk) June 9, 2000, p. 3; "History and Present of Sakha Republic," (<http://ngo.sitc.ru/nll/sakha/history.html>).

<sup>62</sup> *Tuimaada Sanata* (Yakutsk), Oct 20, 2000, pp. 4-5.

<sup>63</sup> Ibid.

<sup>64</sup> *Poliarnyi krug v yakutii*, December 1, 2000, p. 16. The decree set up a new joint-stock company, Alrosa, the majority of whose shares were under the control of republic and local authorities in Sakha.

<sup>65</sup> Daniel Kempton, "Budgetary Politics in the Russian Federation: The Case of Sakha (Yakutia)," *International Journal of Public Administration* 22, (1999), 1345-85.

<sup>66</sup> See, e.g., *Rossiiskaia gazeta*, July 11, 1996, in FBIS-SOV 96-157-s.

<sup>67</sup> See, e.g., *Segodnya*, May 16, 1997, pp. 1,6, and *Izvestiia*, May 16, 1997, p. 2, both reprinted in *The Current Digest of the Post-Soviet Press*, 49, (1997), 7-9. One of the key questions was about revenues from the diamond "markup." The money had been channeled to off-budget funds under Nikolaev's direct control, and the disposition of the funds remains in dispute.

<sup>68</sup> *Tuimaada Sanata* (Yakutsk) October 20, 2000, pp. 4-5; *Il-tumen* (Yakutsk), March 23, 2001, p 17.

<sup>69</sup> Personal interviews, Mirnyi, June 2000; Yakutsk, June 2001.

<sup>70</sup> Personal interviews, Yakutsk, June 2001. One reason, as Steve Solnick notes, was a three-way battle over renewal of Russia's diamond marketing agreement with DeBeers. See Steven Solnick, "Russia between States and Markets: Transnational and Subnational Pressures in the Transition," <http://www.columbia.edu/~sls27/Content/CV/Solnick-Glob3.PDF>.

<sup>71</sup> Katherine Graney, "Projecting Sovereignty in Post-Soviet Russia: Tatarstan in the International Arena," in Michael Keating and John McGarry, eds., *Minority Nationalism and the Changing International Order*. (Oxford and New York: Oxford University Press, 2001), pp. 264-94.

<sup>72</sup> Harry Broadman and Francesca Recanatini, “Where Has All the Foreign Investment Gone in Russia?” (Washington, D.C.: World Bank, working paper 2640, July, 2001), pp. 9-10. Note that this discussion refers to foreign direct investment, excluding loans.

<sup>73</sup> One indication is that the republic accounted for 2.9 percent of Russia’s gross regional product (in 1997), but only 0.6 percent of its FDI (in 1995-99). Ibid.

<sup>74</sup> Ibid.

<sup>75</sup> V. N. Lysenko and V. A. Matveev, ‘‘Rol’ sub”ektivnogo faktora v provedenii ekonomicheskikh reform v regionakh Rossiiskoi Federatsii,’’ in V. N. Lysenko and V. N. Podprigory, eds., *Ekonomicheskie reformy v regionakh Rossiiskoi Federatsii*. (Moscow: Institut sovremennoi politiki, 1998), pp. 96-110.

<sup>76</sup> Kahn, pp. 178-9.

<sup>77</sup> Aleksandr Lebed became governor of Krasnoyarsk after his split with Yeltsin. The leaders of Moscow, St. Petersburg, Tatarstan and Bashkortostan had formed a national party to contest the 1999 Duma election. Steve Solnick, “Methods of Central Control over Russia’s Provinces, and Prospects for the Future,” *PONARS Memo* 97, 1999.

<sup>78</sup> Gordon Hahn, “Putin’s ‘Federal Revolution’: The Administrative and Judicial Reform of Russian Federalism” *East European Constitutional Review*, 10 (winter 2001) .

<sup>79</sup> Ortung reports, e.g., that as of 2001 the federal government took 100 percent of the value-added tax – which meant an 11% shift of Russia’s tax revenues.

<sup>80</sup> See, e.g., *Novaia vecherka* (Kazan’), October 19, 1999, p. 1.

<sup>81</sup> Lynn Nelson and Irina Kuzes, “Regional Variations in the Implementation of Russia’s Federal District Reform,” *Demokratizatsiya*, 10 (winter 2002), 5-18.

<sup>82</sup> Deputies had challenged the executive branch over everything from municipal self-government to the budget and disposition of extra-budgetary funds. By some accounts, they were reacting to Nikolaev’s loss of access in Moscow during Yeltsin’s second term. They also seemed to be reacting to Nikolaev’s habit of making decisions unilaterally.

<sup>83</sup> *Zvezda povolzhia* (Kazan’), March 30-April 5, 2000, p. 1; personal interviews, Kazan’, February 2002.

<sup>84</sup> *Respublika Tatarstan* (Kazan’), June 6, 2000, p.1.

<sup>85</sup> Ibid.

<sup>86</sup> Personal interviews, Kazan’, June 2002.

<sup>87</sup> Ibid.

<sup>88</sup> The process was a slow one, however. As of the spring of 2003, prosecutors were still challenging other parts of the republic constitution and laws, such as those dealing with republic citizenship. But the key elements of the republic’s claim to sovereignty had been written out of its constitution.

<sup>89</sup> Personal interviews, Yakutsk, June 2001.

<sup>90</sup> *Yakutsk segodnya*, November 1, 2000, p. 2.

<sup>91</sup> Personal interviews, Yakutsk, July 2002. One indicator was that the diamond quota for 2002 was approved in January. Moscow Interfax in English, February 7, 2002, in FBIS\_SOV 2002-0207. Republic officials also reported that federal funding for Northern shipments arrived in advance of the shipping season, for the first time in recent memory.