Russia's Costly Decentralization

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Abstract

Within a few years after the collapse of the Soviet Union in 1991, the highly centralized system that Russia inherited was transformed into a highly decentralized system. Such extensive decentralization before local and provincial institutions were sufficiently established was costly. Provincial leaders became local tyrants, manipulating elections and building power bases independent of Moscow. Directors of large enterprises became oligarchs on local and regional – and sometimes national – scale, seizing assets by quasi-legal means. Corruption became endemic. The prospect of national disintegration and even civil war scored at or near the top of public opinion fears. The failures associated with decentralization set the stage not only for Putin's recentralization campaign, but also the dismantling of the feeble institutions of democracy developed in the 1990s.

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Introduction

Within a few years after the collapse of the Soviet Union in 1991, the highly centralized system that Russia inherited was radically transformed into a highly decentralized system. This happened partly by design but was very much a part of the post-communist power struggles in Moscow. Such extensive decentralization before local and provincial institutions were sufficiently established was costly. Many provincial and local leaders became tyrants, running their jurisdictions as if they were personal fiefdoms. They frequently manipulated elections and built power bases independent of Moscow. Directors of large enterprises often became oligarchs on a local and regional – and sometimes national – scale, seizing assets by quasi-legal means. Corruption became endemic. The prospect of national disintegration and even civil war scored at or near the top of public opinion fears in the 1990s. The failures associated with decentralization set the stage not only for Putin's recentralization campaign, but also the dismantling of the feeble institutions of democracy developed in the 1990s.

Decentralization

One of the defining characteristics of the Soviet system was its highly centralized power hierarchy. The hierarchy was actually a double one, with parallel structures of the ministries and the Communist Party with real power lodged in the latter. The degree of centralization resulted in scholarly attempts to conceptualize the system using terms such as "monolithic" and "totalitarian". In fact, once Stalin's death resulted in the retraction of mass terror, it became increasingly clear that the state was not monolithic and that there were competing power structures and interests that made Soviet politics much more interesting than the conventional image of total control suggested. Nonetheless, despite the federal elements of the Soviet Constitution, the factionalization of the Party and the competing interests of various sectors of the economy, it's difficult to deny the central premise of Soviet centralization.

This remained largely true within the Russian Republic (RFSFR) until the end, although the sovereignty movement of the other republics was being mimicked by some of Russia's autonomous republics (most of which emerged as full republics when Russia became independent). What resulted after Russian statehood was a gradual, multi-faceted and yet far-reaching decentralization that nearly reached the stage of confederalism. Russia's decentralization was partially by design, partly by negotiation, and partly by default as a result of an ill-defined distribution of power and authority, regional ambitions, the increasing weakness of the Yeltsin presidency, budgetary stress and eventually financial collapse.

Political Decentralization

Much decentralization was the result of contestation between center and periphery that resulted from vague and confusing constitutional law and the weakness of the center, especially in the second Yeltsin presidency (1996-2000). Some of this emerged out of the confusion of power politics in Moscow that pitted the president against the Duma. The constitution passed after the 1993 confrontation that resulted in the shelling of parliamentary headquarters made significant concessions to the provinces, especially the republics which were referred to as "sovereign states within the Russian federation." Yet elsewhere in the same document the primacy of federal law is underscored.[1]

The federalism that emerged was asymmetric both by design and by default. In the case of the former, some provinces (notably Tatarstan and Sakha, both republics) negotiated treaties with the federal government giving the former greater control over local resources. Eventually there were 46 treaties between the provinces and the center. Many provincial leaders heeded President Yeltsin's dictum to "take as much sovereignty as you can swallow".

That degree of sovereignty did not only result in a highly decentralized state; many provinces proceeded to pass laws and even adopt constitutions that had provisions in direct violation of Russian constitutional and civil law. Two senior officials claimed that as many as half of Russian provinces had constitutions that contradicted the federal constitution. Asymmetrical federalism was policy, but was also "the result of open violations of the federal constitution." In early 2000, the Minister of Justice reported that 20% of provincial legislation was unconstitutional.[2] Some provinces – notably Sverdlovsk – asserted the right to introduce their own currencies (for this and other reasons, notably a demand for republic status, Sverdlovsk governor Eduard Rossel was fired by Yeltsin only to be directly elected in the ensuing elections [3]). As Ross has argued, Russia had "five competing and contradictory sources of law: (1) the federal constitution, (2) the federal treaty, (3) federal laws, (4), bilateral treaties, and (5) the constitutions and charters of the republics and regions."[4]

By the mid-90s, the balance of power between the federal and provincial governments was clearly in favor of the latter.[4] The increasing weakness of the center stemmed from other factors as well, including the destabilizing effect on state power caused by economic and social turmoil; the rapid transfer of the most valuable assets from state into private hands (often of powerful oligarchs), and the declining health and alcoholism of the president himself.

The weakness of the center partly explains why decentralization turned local and provincial governments into either ineffective actors or localized fiefdoms.[5] In the former case, many municipalities and cities were captured by powerful enterprises who dominated the local economy. In the latter, it was the local elites who dominated the local economies,

exacting rents at will and doing little to maintain local infrastructure and services, not to mention promote economic development. In some cases, it was collusion between local political and economic elites to redirect tax dollars, misreport revenues and abscond with local resources. In most cases, one important result was the discrediting of local governance in the eyes of the population.

Fiscal Decentralization

Article 132.1 of the 1993 Constitution states that "The local self-government bodies shall independently manage municipal property, form, adopt and implement the local budgets, introduce local taxes and dues, ensure the protection of public order, and also solve other issues of local importance." The ensuing five years marked several steps to bring the fiscal dimensions of budgeting into accordance with the Constitution. Again, as with political decentralization, it was not all by design. Much of the competition between federal, regional and local levels of government was the contestation over taxing authority, collection and distribution.

Reforms in 1993 (a presidential decree), 1995 (a local self-government law) and 1997 (a local government budgetary law) built upon the provision in the constitution (Art.132.1) granting authority to local governments to levy taxes. Through much of the Yeltsin presidency, the trend was decentralization of taxing authority with subsequent attempts to clarify jurisdictions and render tax laws consistent. By 1998, though, a reversal in the trend began with the introduction of a new tax code that removed some of the revenue sources (particularly the VAT in 2000) of local governments. Still, at the end of the Yeltsin presidency local governments retained half of all income taxes and most property taxes.[6]

Dabla-Norris writes that "…decentralisation may aggravate fiscal imbalances, thereby, endangering overall macroeconomic stability, unless sub-national governments are committed to fiscal discipline and the decentralisation package includes incentives for prudence in debt and expenditure management."[7] In the absence of a coherent and strong central authority, accountability mechanisms were never introduced. Ambiguity in policy jurisdictions and a lack of policy coordination among levels of government and ministries resulted in the proliferation of regulations, norms and directives that were, in effect, unfunded mandates for local government.[8] Local governments in the 1990s lacked not only clear authority, but also fiscal discipline since the likelihood of rescue by provincial governments was high.[6]

Other Aspects of Decentralization

One atypical form of decentralization was the regionalization of the military. This was not by design, of course, but was precipitated by ongoing budgetary constraints that limited Moscow's ability to quarter its troops. In notable cases (including Primorskii Krai where the Pacific fleet is based), provincial governors supported units with food, housing and energy supplies.[9] At the height of the state's confusion and lack of direction after the 1998 financial collapse, strategic forces were the target of provincial leaders who threatened to take forces on their territory – including weapons – under their direct control.[10]

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The free-for-all contestation over power and authority after the 1998 financial collapse exacerbated fears created by secessionist tendencies and economic distress that the country

was falling apart. By that time, the effect of the dispersal of power was fear of disintegration. The population was receptive to a message of recentralization and – importantly – a curtailment on what many saw as the excesses of democracy.

Recentralization

The era of Russia's recentralization is coterminous with the Putin presidency and, more recently, prime-ministership. Indeed, it is an integral part of the Putinist project of revitalizing the Russian state and Russia's presence in international affairs. Other elements include his campaign against the oligarchs, the reigning in of civil society, the attempt to extend Russia's sphere of influence into the former Soviet space, and the promotion of a "party of power", United Russia, to contest (and win) elections.

Re-establishing The "Power Vertical"

The Constitutional Court weighed in on the matter of sovereignty early in the Putin presidency with a ruling in June 2000 that the sovereignty declarations of numerous republics (specifically in this case, Gorno-Altai) were unconstitutional. Shortly before that, Putin issued a decree requiring several provinces to align their legislation with federal laws.[11]

The process of removing the power and independence of provincial governors and republic presidents was accomplished in four steps. First, shortly after moving into the presidency Putin created seven federal districts with appointed envoys who reported directly to him. Their responsibilities were to supervise federal agencies operating in the provinces and, not surprisingly, to keep an eye on the governors.

Second, Putin gained the right to remove governors (and the Duma gained the corresponding right to disband provincial legislatures) if either were acting in violation of federal laws. Since many – perhaps all – provinces had legislation that contradicted federal laws, pretexts were not hard to find. Removal required due process with the support of a prosecutor and approval by courts.

Third, the Federation Council, the upper chamber of parliament, was reformed in August 2000. Hitherto comprised *ex officio* of governors, two members were to be appointed in each province, one by the governor and one by the provincial duma.

The final and most significant step was to replace direct elections of governors with appointments by the president. The law was passed in late 2004, after which the president gained the power to nominate candidates for the post of governor. The provincial dumas have the right to reject the nomination, but such rejection is largely meaningless since the president can legally dismiss the duma if it rejects his candidate twice.

A constitutional amendment passed in May 2009 legalized the administrative removal of mayors by provincial governors. Mayors are elected, and to date only a city duma could remove one through due process. The reasons for which a mayor may be removed relate to poor performance, incompetence, corruption and the like. However, mayors can likely be removed for political reasons masked as claims of deficient performance. Indeed, in the two initial instances reported in the media, the mayors under question do not represent United Russia while the governors do.[12]

The foregoing measures coupled with others – notably, laws on political parties (passed in 2001 and amended in 2007) and non-governmental organizations (passed in 2006) served to further retract democratic institutions and space for civic initiative. The gradual control over the media, either directly or through corporate interests close to the Kremlin, made it possible to mount public relation campaigns that were nearly ubiquitous in their support for Putin and Putinism.

Fiscal Recentralization

Although local authorities lost control of VAT revenues in 2000, the real reversal in decentralized taxing authority came with the 2001 Tax Code introduced soon after Putin's election. Since 2001, almost all tax authority – including the right to set rates, establish types of taxes and determine revenue sharing – lies with the center. Recentralization started with the 2001 Tax Code and was furthered by a 2003 law on local self-government that reversed many of the provisions of the 1995 law. In a seven-year period, the percent of the overall consolidated budget that went to the local level dropped from over a quarter (28.8%) in 1998 to just 11.6% in 2005. During the same time period, the percentage accruing to the federal level increased from 43.1% to 56.2%. (The balance went to provincial budgets.)[6] The percentage of local budgets in 2006 that accrued from the local tax base ranged from 21.7% to 37.9%; most of the rest came from budget transfers, a highly unreliable and inadequate source for local needs.[6]

The more the federal government recentralized control of taxing authority – and importantly, diverted most of tax revenues to the center – the more local authorities worked to hide revenues, often through off-budget funds and clever financing arrangements with large local enterprises.[6]

Consequences

For several reasons stated above, Russia's decentralization in the 1990s had significant consequences for the evolution of Russia's political system. Specifically, not only did the failed decentralization discredit decentralization as a principle, but served to undermine the public's commitment to democracy. A desire for a strong leader to prevent what was perceived to be a sense of drift, a weak state (in the face of strong and predatory competitors), and the danger of fratricidal war laid the groundwork for Putinism.

What is Putinism? Shevtsova writes that it "rests on personalized power" behind a façade of "outwardly democratic institutions [that] hide a hybrid of authoritarian, oligarchic, and bureaucratic tendencies."[13] McFaul and Stoner-Weiss see Putin as a political opportunist who took advantage of oil windfall profits to "crack down on or co-opt independent sources of political power."[14] Kravtsev [15] – building on Jowitt [16] argues that Putinism is first and foremost about renegotiating Russia's role in the world on its terms. Indeed, the last is the closest to the Kremlin's own articulation of Putinism (while not utilizing that term, of course). Vladislav Surkov, deputy chief of staff under both Putin and Medvedev and the person as close to being the regime's ideologist as any, argues that the function of the state is to pursue "sovereign democracy".[17] "Sovereignty" is all about eliminating foreign influence in Russian politics, society and economics, reversing what many saw as undue influence (and even intervention) during the 1990s.

One does not expect Russia to pursue its interests in international affairs any less than any other country. But the understanding of "democracy" in the term "sovereign democracy" involves suspension of the conventional notions of free and fair elections, the rule of law and similar institutions and is expressed in terms of what Dahl called "guardianship": the state acting on behalf of the people's interests – without the people necessarily expressing those interests.[18]

What are the lessons we take from Russia's failed and costly decentralization? First, decentralization of authority in the hands of individuals either not used to it or accustomed only to working within a strict power hierarchy may do little to promote either local democracy or effective public administration. Incentives to function according to the rules

were weakened by the fact that the rules themselves were vague and constantly under revision and renegotiation. Moreover – the next point – there was no one to enforce them.

Second, in the absence of checks on local and regional executive power, the result is likely to be localized fiefdoms. Checks can come horizontally, in particular from local and regional legislative organs, or vertically, in the form of oversight from above. In Russia, the lack of any tradition of legislative power made it difficult for deputies to counterbalance executive power. And the vertical checks were undermined by Yeltsin's need to make concessions while engaged in his own power struggle and, over time, by his increasingly weak presidency. Thus, many local and regional leaders ran amok, resulting in the face of government that most people experienced up close one of tyranny and unchecked power.

Third, there is much to be said for civil service training and an ethic of public service. There was much of the former in the 1990s, including through both donor programs and the network of civil service academies inherited by Russia from the Soviet Union. The latter, however, is very underdeveloped, and in fact was probably stronger in the Soviet days than today. Low wages and many opportunities for graft are a poisonous combination. While there is no panacea for developing a public service ethic, in the absence of one an aggressive policy of fiscal decentralization is not advisable.

There is one positive aspect of the legacy of Russia's decentralization: perhaps more than ever before, in many localities citizens consider local authorities to be accountable, at least in principle if not in fact. Localized protests are not uncommon, and incumbency does not appear to guarantee reelection.

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