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Asymmetric Federalism in Russia: Cure or Poison?

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Recommended Citation
Jorge Martinez-Vazquez. Asymmetric Federalism in Russia: Cure or Poison? in Richard M. Bird and Robert D. Ebel (eds.), Fiscal Fragmentation in Decentralized Countries: Subsidiarity, Solidarity and Asymmetry, 227-266. Edward Elgar Publishing, 2007.

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Fiscal Fragmentation in Decentralized Countries

Subsidiarity, Solidarity and Asymmetry

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Edward Elgar
Cheltenham, UK • Northampton, MA, USA

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Published by
Edward Elgar Publishing Limited
Glensanda House
Montpellier Parade
Cheltenham
Glos GL50 1UA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

HJ
192.5
.F564
2007

ISBN 978 1 84542 402 2

Printed and bound in Great Britain by MPG Books Ltd, Bodmin, Cornwall

8. Asymmetric Federalism in Russia: Cure or Poison?

Jorge Martinez-Vazquez

The Soviet Union disintegrated in 1991 for several fundamental reasons, including the failure of planned socialism to improve people's standard of living. One less anticipated, but also fundamental, reason for the disintegration of the Soviet state was the diversity and pluralism of the Soviet republics, which included countries as diverse as Estonia, Latvia and Lithuania in the Baltics; republics such as Tajikistan, Kazakhstan and the Kyrgyz Republic in Central Asia; and Armenia, Azerbaijan and Georgia in the Caucasus. To the surprise of many, one of the leading supporters of this separation was the Russian Federation that, until then, had been perceived as the ruling centre of a vast empire put together during many centuries of war by czarist Russia and the Soviets.

The birth of the Russian Federation in the agony of the disintegration of the Soviet Union marked the young country from the start with a fear of its own disintegration. The fears were justified: the Russian Federation was formed of 89 very different regions. From the start, several of these regions rushed to declare their sovereignty and independence from the Russian Federation. In many ways, therefore, the new country was subject to centrifugal forces similar to those that had led to the disintegration of the Soviet Union.

Nation building, indeed, keeping the nation together, took first priority in the national agenda in the early years of the transition (1992–93). One of the most important tools used in this effort was the design of a new system of intergovernmental fiscal relations between the federal and regional governments and, to a lesser extent, between regional and local governments, capable of accommodating the diversity of Russian regions and ethnic groups. The new Russian government theoretically had the choice of building a homogeneous system of intergovernmental fiscal relations that treated all regions exactly the same or an asymmetric system, which would have given advantages to some regions over others.

In reality, in 1992–93 the federal government did not have much of a choice but to accept an asymmetric system of intergovernmental relations, which was rapidly being shaped by the demands of a small number of ethnic

republics. Indeed, it was the regions that early on dictated the agenda of the federal contract, that is, the shape and form the Russian Federation should assume. During the early years of the transition, the federal government remained reactive and tried to adapt to the agenda set by the maverick regions. The 1993 Russian constitution recognized the possibility of an asymmetric configuration of intergovernmental relations between the regions and the federal government.

In the eyes of many, the asymmetric design of the system of intergovernmental fiscal relations saved Russia from falling into an abyss of civil wars as in Chechnya, and thus kept the country from disintegrating. However, asymmetric federalism has not been without its costs. A number of observers have explained many of the problems and tribulations Russia has faced in the last decade—lack of fiscal discipline, economic stagnation and so on—as having roots in asymmetric federalism and the federal government's inability to enforce federal laws throughout the Russian Federation. In 1997–98, the administration of President Boris Yeltsin started a campaign to rein in the regions. This policy was significantly increased by the new administration of President Vladimir Putin, who, since he took over in 2000, has made gaining control over the regions and enforcing federal laws a cornerstone of his administration.

The trademark of the early years of the Yeltsin administration was to accommodate the demands for more autonomy with concessions to the most aggressive regions that basically gave them more favourable treatment within the framework of intergovernmental fiscal relations. Leaving aside the issue of Chechnya, this special treatment did not succeed in quieting those demands. Part of the problem was self-inflicted, in that early on, Yeltsin saw the regional demands as a strategic weapon that he could use in his fight for political dominance with the legislative branch, the Supreme Soviet. Yeltsin eventually prevailed over parliament, but things got too far away from Yeltsin for him to reclaim control over the powerful and now democratically elected governors he had created. During the Yeltsin years, many regions behaved as if they saw little benefit from being part of the federation and acted preponderantly with a narrow, selfish view and not in the national interest. This scenario changed radically with Putin's election as president in March 2000. Putin was elected with a wide margin and his popularity allowed him to immediately take on the regional governors and reduce their power.

The objective of this chapter is to evaluate the role, significance and effects of asymmetric federalism in the Russian Federation to draw a number of useful lessons in relation to those things that have worked and others that have not. The organization of fiscal federalism in Russia continues to evolve. Where President Putin and his administration actually want to take fiscal federalism is uncertain, but more central control from Moscow and a

strengthened state appear to be high on the policy agenda. This does not necessarily mean that sustained fiscal recentralization will occur. However, the most recent changes in 2004 following the Beslan school hostage crisis in southern Russia signal a further swing toward centralization in the country. The most significant of these changes is President Putin's call for the elimination of democratic elections for regional governors and having them directly appointed from Moscow.

The next section describes the significant economic, geographic and ethnic diversity of Russia's regions in some detail. This is followed by a discussion of the principles and theory of asymmetric federalism. The next section reviews the nature and extent of asymmetric federalism in Russia (I do not discuss in any depth the conflict in Chechnya; for this see Lapidus 1998). The chapter then examines how well the asymmetric design of intergovernmental fiscal relations has worked before turning to a discussion of the future of fiscal decentralization in Russia and what role asymmetric policies are expected to play.

REGIONAL DIVERSITY

Russia is the largest country in the world, spanning 11 time zones and 17 million square kilometres (see Figure 8.1 for a map of Russia). It encompasses 89 regional autonomous governments (grouped into 11 areas for statistical purposes) with a total population of 145.9 million in 2000. Russia's regions are diverse in terms of economic conditions, ethnic composition, language and religious and historical differences. The 1993 constitution states that of the 89 'subjects of the federation', which I will refer to as regions, 21 are republics, made up of the former autonomous republics and most of the autonomous *oblasts* in the former Soviet Union; 55 are regular Russian oblasts and *krays*; 2 are the city regions of Moscow, the capital, and St Petersburg, the capital from the time of Peter the Great until the Soviet era; and 11 are autonomous *okrugs* (AOs), including the Jewish autonomous oblast.[1] Even though the Russian Federation theoretically consists of 89 regions, because of the ongoing civil war in one of its regions, Chechnya, statistics and reports often refer to only 88 regions.

Many of the ethnic republics tend to be quite poor and are often located on the periphery of the country, with higher transportation costs to main markets and alienation from the country's mainstream. This group includes the republics of Tuva, Buryatia, Karelia, Chechnya and Dagestan. At the same time, several ethnic republics are rich in natural resources and have been at the vanguard of demands for autonomy and separatist threats. This group includes Tatarstan, Bashkortostan and Sakha (Yakutia).

Figure 8.1 The Russian Federation

Main Regional Features

Table 8.1 presents the main features of the regions for the 11 geographical areas, and the appendix shows the feature for all 89 regions. The most striking feature is the unevenness of the distribution of land and population. For example, the East Siberia Area and the Far Eastern Area combined represent more than 60 per cent of the territory of the country but barely over 11 per cent of the population. By contrast, the Central Area, which includes Moscow, represents 2.8 per cent of the area of the country but 20 per cent of the population. In terms of population density, it is less than 0.1 person per square kilometre in Taimyrsky AO in East Siberia and 8631 people per square kilometre in Moscow.

The regions also differ in the vertical structure of government. The budgetary system across regions is quite diverse, with regions having three to five levels of government, but not all of them with a separate budget (Kurlyandskaya 2001). In some regions, the regional authorities have a two-tier government structure. This typically happens in regions where municipalities are subordinated to *rayon* (county) governments. This second tier of regional government typically has a purely executive function and the authorities are appointed by the regional centre, which is, however, assigned its own operating budget.

Demographic Changes

During the last decade of economic transition, Russia has lost population. The country's population stood at 148.7 million in 1992, but was down to 145.9 million in 2000 (Table 8.2). Most regions suffered population losses from 1991 to 1999 that were as high as 6.6 per cent in the Central Area, which includes Moscow. The notable exceptions were several ethnic republics and AOs that experienced natural increases in population during the period, for example, Dagestan, Chukotskiy AO, Ingushetiya and Yamalo Neteskiy AO. Those experiencing the largest negative natural changes in population were the regions in the corridor between Moscow and St. Petersburg (Tver, Novgorod, Pkov and Leningrad oblasts).

The areas have varied much more widely in terms of changes in population caused by net migration. The two main migration processes during the transition years were the return of Russians from other former Soviet republics and out-migration from the more inhospitable regions in the north and far east to the western and southern parts of Russia (Heleniak 1997). The big losers were the Far Eastern Area, which lost 10.7 per cent of its population in 1991–99, and the Northern Area, which lost 5.1 per cent (Table 8.3). These area averages conceal some dramatic differences within the areas. For example, in the

Table 8.1 Key features of areas, selected years

Name of area	Area, 2000 (thousands of km²)	Population, 2000 (thousands of people)	Population density, 2000 (people per km²)	GRP, 1998 (Rub thousands)	GRP per capita, 1998 (Rub thousands)	Percentage of area	Percentage of population	Percentage of GDP
Northern Area	1466.3	5668	3.9	110 383	19.1	8.59	3.88	4.59
Northwestern Area	197.1	7898	40.1	126 866	15.9	1.15	5.41	5.28
Central Area	484.0	29 361	60.7	615 670	20.8	2.83	20.12	25.63
Volgo-Vyatsk Area	265.4	8292	31.2	97 686	11.7	1.55	5.68	4.07
Central Chernozem Area	167.7	7781	46.4	87 858	11.2	0.98	5.33	3.66
Povolzhsk Area	536.4	16 805	31.3	240 021	14.2	3.14	11.52	9.99
North Caucasian Area	374.4	17 677	47.2	148 653	8.4	2.19	12.11	6.19
Ural Area	824.0	20 321	24.7	306 038	15.0	4.83	13.93	12.74
West Siberia Area	2427.2	15 040	6.2	356 823	23.6	14.21	10.31	14.85
East Siberia Area	4122.8	8973	2.2	158 566	17.5	24.14	6.15	6.60
Far Eastern Area	6231.0	7160	1.1	153 717	21.0	36.49	4.91	6.40
Russian Federation	17 075.4	145 925	8.5	2 402 280	16.3	100.00	100.00	100.00
Maximum	3103.2	8631	8 631.0	362 520	62.7	18.17	5.91	15.09
Minimum	0.6	18	0.0	1053	3.4	0.00	0.00	0.00

GDP Gross domesitc product.
GRP Gross regional product.

Source: Goskomstat data.

Table 8.2 Population by area, selected years

Area	1986		1992		1994		1996		1998		2000	
	Number (thousands)	Percentage share	Number (thousands)	Percentage share	Number (thousands)	Percentage share	Number (thousands)	Percentage share	Number (thousands)	Percentage share	Number (thousands)	Percentage share
Northern Area	5959	4.1	6136	4.1	6023	4.1	5889	4.0	5785	3.9	5668	3.9
Northwestern Area	8091	5.6	8270	5.6	8136	5.5	8052	5.4	7989	5.4	7898	5.4
Central Area	29 821	20.7	30 363	20.4	30 099	20.3	29 883	20.2	29 651	20.2	29 361	20.1
Volgo-Vyatsk Area	8372	5.8	8503	5.7	8483	5.7	8444	5.7	8376	5.7	8292	5.7
Central Chernozem Area	7702	5.4	7762	5.2	7840	5.3	7880	5.3	7846	5.3	7781	5.3
Povolzhsk Area	16 035	11.1	16 641	11.2	16 808	11.3	16 920	11.4	16 886	11.5	16 805	11.5
North Caucasian Area	16 347	11.4	17 246	11.6	17 518	11.8	17 738	12.0	17 707	12.0	17 677	12.1
Ural Area	19 882	13.8	20 475	13.8	20 465	13.8	20 461	13.8	20 406	13.9	20 321	13.9
West Siberia Area	14 364	10.0	15 122	10.2	15 093	10.2	15 128	10.2	15 109	10.3	15 040	10.3
East Siberia Area	8834	6.1	9260	6.2	9200	6.2	9144	6.2	9071	6.2	8973	6.1
Far Eastern Area	7581	5.3	8032	5.4	7788	5.2	7505	5.1	7336	5.0	7160	4.9
Russian Federation	143 835	100.0	148 704	100.0	148 366	100.0	147 976	100.0	147 105	100.0	145 925	100.0
Maximum	8740	6.1	8957	6.0	8793	5.9	8664	5.9	8629	5.9	8631	5.9
Minimum	21	0.0	25	0.0	23	0.0	20	0.0	20	0.0	18	0.0

Source: Census data reported by Goskomstat.

Table 8.3 Net changes in population by area, 1991–99 (per cent)

Area	Natural changes	Change from migration
Northern Area	–1.9	–5.1
Northwestern Area	–6.7	2.5
Central Area	–6.6	3.6
Volgo-Vyatsk Area	–4.3	2.5
Central Chernozem Area	–6.0	6.8
Povolzhsk Area	–3.0	4.6
North Caucasian Area	–0.7	4.7
Ural Area	–2.6	2.3
West Siberia Area	–1.8	1.8
East Siberia Area	–0.4	–1.8
Far Eastern Area	0.7	–10.7
Russian Federation	–3.3	2.1

Source: Author's computation based on Goskomstat data.

Far Eastern Area, the Chuotsky AO lost more than half of its population and Magadan oblast lost 40 per cent. These are remote, isolated areas with harsh living conditions that lost strategic military value with the end of the Cold War.[2] Another big loser in net migration was Chechnya because of its secessionist war.

The big winners in net migration were warmer and more hospitable parts of the country, such as the Central Cherzozem (Black Soil) Area, with the population of Belgorod oblast, for example, increasing by 11.8 per cent, and the North Caucasian Area, with the population of Krasnodar kray increasing by 11.4 per cent. Kaliningrad oblast, a western enclave in the Baltic Sea between Poland and Lithuania, was also a big winner in net migration, up 10.8 per cent in 1991–99.

An interesting observation is that Moscow, by far the richest and most attractive destination in economic terms, did not experience much net migration: 2.2 per cent during 1991–99. This may have been due to Mayor Yuri Luzhkov's illegal demands that would-be residents apply for residency permits,[3] but also by the scarcity and high cost of housing. In St. Petersburg, where there has been no highly publicized enforcement of residency permits, but where the cost of housing is high and which experienced much less economic growth than Moscow, net migration was a negative 0.1 per cent. Note

that the oblasts surrounding the two cities, Leningrad oblast and Moscow oblast, experienced much higher net migration during the period, 8.3 per cent and 4.3 per cent, respectively.

Ethnic Diversity and Relative Geographic Remoteness

The Russian Federation has significant ethnic diversity, but much less than in the former Soviet Union. Lapidus (1999, p. 75) describes the 21 ethnically defined republics of the Russia Federation as 'islands in an ethnically Russian sea.' As Table 8.4 indicates, in 1989, 88 per cent of the country's population was ethnic Russian. The ethnic nationalities tend to be concentrated along the periphery of the country, such as the North Caucasian Area, but even here some three-quarters of the population are ethnic Russians. However, in 11 regions, ethnic nationalities account for more than half the population. These are the Chuvasia republic, the Kalmikya republic, the Tatarstan republic, the Dagestan republic, the Ingushetiya republic (which includes Chechnya), the Kabardino-Balkaria republic, the Karachaevo-Cherkesskaya republic, the North Osetia

Table 8.4 Shares of Russian and other populations by area, 1989 (per cent)

Area	Russian	Main ethnic group	Other ethnic groups[a]
Northern Area	89.5	6.2	4.2
Northwestern Area	97.6	0.0	2.4
Central Area	98.4	0.0	1.6
Volgo-Vyatsk Area	79.2	18.7	2.0
Central Chernozem Area	97.4	0.0	2.6
Povolzhsk Area	78.9	16.9	4.2
North Caucasian Area	76.1	22.6	1.3
Ural Area	83.0	10.8	5.4
West Siberia Area	95.1	1.0	4.0
East Siberia Area	86.3	8.0	5.7
Far Eastern Area	85.5	4.9	9.7
Russian Federation	88.3	8.0	3.6
Maximum	100.0	80.2	28.4
Minimum	19.8	0.0	0.0

a. Others may include Ukrainians, Belorussians, Tatars, Armenians, Germans, Jews and other nationalities that are not Russians and not part of the main ethnic group.

Source: Census data reported by Goskomstat.

republic, Komi-Permyatskaya AO, the Tuva republic and Aginskiy Buryatskiy AO. In some of these regions 'titular' nationals (or the main ethnic group) constitute a majority of the population. In addition to titular nationals, Goskomstat, the statistical office, also records other nationalities, such as Ukrainians, Belorussians, Armenians, Tatars and Jews. Even though these groups constitute minorities in the country as a whole, the various ethnic groups are concentrated enough in a number of regions to make ethnic demands an important issue in the design of intergovernmental fiscal relations.[4]

Another significant factor of diversity, and possibly of conflict and frustration between the regions and the centre, involves time zones and geographical distance between the federal capital and the regions. Because Russia has 11 time zones, many regions are unable to communicate with Moscow during regular working hours. The average distance between the capitals of the regions in the Far Eastern Area and Moscow is 9355 kilometres and the average time difference is eight hours. The average distance between regional capitals and Moscow for the entire Russian Federation is 2633 kilometres and the average time difference is two hours.

Economic Disparities

Russia's regions are significantly disparate in industrial development and natural resource endowments. This has led to extremely high differences in gross regional product (GRP) per capita across the regions. In 1998, the difference between the region with the highest GRP per capita (Tyumen oblast, which has the largest deposits of oil and gas in Russia) and that with the lowest (Ingushetia republic) was 18-fold, with areas' ratios to the mean GRP per capita for Russia ranging from 3.8 to 0.2 (Table 8.5). The area averages for GRP per capita shown in the table hide some large disparities. For example, regions with high GRP per capita are Moscow and the republic of Sakha (Yakutia) in Siberia, which is rich in mineral deposits, while extremely poor regions include the Dagestan republic and other peripheral ethnic republics.

The transition period has done little to erase disparities, and if anything, economic disparities have become worse (see Sutherland and Hanson 1996 for a discussion of growing economic disparities in the early years of the transition). As Table 8.6 shows, the ratio between the maximum and minimum values for regional personal income per capita, themselves expressed as ratios to the overall mean for Russia, increased from 3.8 in 1985 to 18.5 in 1999, an almost 500 per cent increase. This trend has added to the challenge of designing the right system of intergovernmental fiscal relations, especially the system of equalization transfers.

Economic disparities are aggravated by significant differences in the cost of living across the regions, for instance, in 1999, the cost of the minimum

Table 8.5 GRP per capita by area, 1998

Area	GRP per capita (current Rub)	Ratio to the mean for Russia
Northern Area	19 081	1.17
Northwestern Area	15 880	0.97
Central Area	20 764	1.27
Volgo-Vyatsk Area	11 663	0.71
Central Chernozem Area	11 198	0.69
Povolzhsk Area	14 214	0.87
North Caucasian Area	8395	0.51
Ural Area	14 997	0.92
West Siberia Area	23 617	1.45
East Siberia Area	17 481	1.07
Far Eastern Area	20 954	1.28
Russian Federation	16 330	1.00
Maximum	62 661	3.80
Minimum	3365	0.20

Source: Author's computation based on Goskomstat data.

Table 8.6 Personal income per capita by area, selected years (ratio to the mean for Russia)

Area	1985	1990	1995	1999
Northern Area	1.19	1.12	1.17	1.04
Northwestern Area	1.04	1.06	1.07	0.93
Central Area	1.07	1.12	1.54	1.74
Volgo-Vyatsk Area	0.92	0.88	0.67	0.58
Central Chernozem Area	0.90	0.87	0.67	0.66
Povolzhsk Area	0.92	0.91	0.71	0.75
North Caucasian Area	0.77	0.81	0.57	0.61
Ural Area	0.92	0.91	0.78	0.78
West Siberia Area	1.10	1.10	1.15	1.12
East Siberia Area	0.98	0.94	1.01	0.87
Far Eastern Area	1.30	1.28	1.24	1.07
Russian Federation	1.00	1.00	1.00	1.00
Maximum	2.18	2.12	3.50	4.26
Minimum	0.57	0.60	0.23	0.23

Source: Author's computation based on Goskomstat data.

regional subsistence basket was 470 per cent higher in Chukotskiy AO than in Ulyanov oblast. The most expensive regions are in the Far Eastern Area and the least expensive are in the Povolzhsk area.

The disparities have arisen primarily because economic growth has increasingly been concentrated in a handful of regions and foreign direct investment (FDI) has been concentrated in an even smaller number of regions. Some areas that in the past depended more heavily than others on Moscow for transfers and subsidies, such as the Far Eastern and Northern areas, have suffered disproportionately from budget cuts and from the end of the Cold War era and the subsequent closing of many military facilities. In addition, changes in revenue sharing arrangements between the centre and the regions have allowed more income to stay in the resource-rich regions.

With the exception of growth of 0.5 per cent in 1997, the growth rate for Russia as a whole was negative during 1995–98, though it has improved in recent years. Area average growth rates followed much the same pattern, ranging from growth of 1.9 per cent in the Northern Area in 1998 to –14.5 per cent in the West Siberia Area that same year despite significant positive growth in 1995 and 1996. The largest cities, Moscow and St. Petersburg, did well in terms of growth during this period, especially Moscow. Their surrounding oblasts did less well. Natural resource-rich regions like Tyumen oblast experienced ups and downs in real GRP depending on oil prices. Other regions experienced what seem to be extremely large fluctuations in real GRP, but whether these represent reporting anomalies or not is unclear.

Ahrend (2000) investigates a number of possible factors that could help explain the difference in economic performance across the regions during the transition years. He finds that the most robust explanatory variable is the initial competitiveness of a region's industry, measured as the share of exports in total regional output. Other important factors in explaining performance were industrial structure, natural resource endowment and human capital. What is most controversial in Ahrend's findings is that political, institutional and reform variables did not seem to matter in explaining different growth rates across regions. Despite the wide belief that the degree to which a region implemented economic reform measures should have played an important role in explaining economic performance, Ahrend (2000) finds that initial conditions at the start of the transition played a much more important role. Similarly, de Melo, Ofer and Yossifov (1999) find that economic performance of the regional capitals along the Volga River was associated with favourable initial conditions; however, they also give economic reform an important role in explaining differences in performance.

One possibility is that the impact of economic reforms on economic growth works with a lag and therefore takes some time to be detected statistically. Another possibility is that positive initial conditions tend to be positively correlated with economic reform, and therefore disentangling the two

types of effects is hard. At any rate, with few constraints on their lawmaking powers, the regions have come up with quite different legal and regulatory regimes (Polishchuck 2000). These differences in economic and regulatory regimes are to a large extent manifestations of regional preferences and the autonomy the constitution provides to the regions. The starkest difference has been between a group of regions that have maintained intensive interventions in the economy through price controls, hurdles to interregional trade and the use of consumer subsidies, the so-called red belt regions, and many other regions that have followed liberal and more market-friendly policies.[5]

Foreign Direct Investment Patterns

To date the opening of the economy to foreign investors has done little to reduce economic disparities across the regions. Indeed, FDI appears to have contributed to the widening disparities.

Clearly Moscow has benefited from being the political capital of the country and is by far the most attractive destination for FDI. During 1995–99, the city of Moscow accounted for 44.1 per cent of Russia's total FDI and Moscow oblast, the regional ring around the city, came in second place among the regions, accounting for 9.8 per cent of total FCI. Together this represents more than half of all FDI in Russia, and according to Goskomstat, the trend seems to have continued in more recent years. By contrast, the city of Moscow and Moscow oblast together represent about 20 per cent of Russia's gross domestic product. Because it is the capital, some FDI that has been recorded as taking place in Moscow may actually have ended up elsewhere. Nevertheless, in addition to being the country's finance and communications centre, Moscow has built up a significant industrial and services base.

The next most important destination for FDI has been St Petersburg and its surrounding region, Leningrad oblast. The two combined represented almost 8 per cent of total FDI in 1995–99. FDI has also been significant in several other regions. In some cases, it is related to gas and/or oil projects, for example, in Sakhalinsk oblast and in Krasnoyarsk kray, but in other cases investments have been more diversified, as in Novosibirsk oblast with investments by Coca-Cola and other food processing enterprises and in Samara oblast with investments by the chemical, food processing and petroleum refining industries. Broadman and Recanatini (2001) analyse the distribution of FDI and find that the most important determinants are market size, infrastructure development and policy environment factors.

The Haves and the Have Nots

Disparities in economic conditions have led to a political split at the regional level, with two main coalitions lobbying the federal authorities in quite different

directions. The first group consists of the rich or donor regions, that is, the regions that contribute in net terms to the federal budget. The second group consists of the poor or subsidized regions, that is, those that receive a net inflow of funds from the federal budget. The club of rich regions has had some mobility at the bottom, but permanent members include the city of Moscow, St Petersburg, Nizhny Novgorod, Samara, Sverdlovsk, Volgograd, Tyumen, Khanty-Mansi, Krasnoyarsk and Sakha (Yakutia).

Policies to Reduce Interregional Income Disparities

This section highlights some of the main policies concerning revenue assignments, federal expenditures and transfers that have had major impacts on regional disparities (see Martinez-Vazquez and Boex 2001 for more details). Revenue assignments have evolved significantly during the transition. At the start of the transition, and despite all the problems it represented in terms of bargaining and discretion, the practice of regulation (or adjusting tax sharing rates for individual regions in a discretionary manner) provided the federal authorities with the significant advantage of being able, at least in theory, to equalize fiscal disparities across regions by reducing the rates at which taxes are shared in richer regions and increasing them in poorer regions. The drive to improve predictability and transparency in revenue assignments meant that after 1994, the federal authorities attempted to keep sharing rates stable over time and to make them uniform across regions, with the implication that all regions, rich and poor, had to be treated the same. Table 8.7 summarizes revenue assignments between the federal government and the regions during 1991–2002.

Thus the attainment of more efficient and transparent revenue assignments resulted in even larger fiscal disparities between the regions and the federal government had to rely on a new system of equalization grants to offset some of the increased disparities in the distribution of fiscal resources. Whereas revenue sharing arrangements were relatively stable from 1994 through 1997, several substantial changes were made in revenue sharing arrangements before and after the economic crisis of August 1998. Changes in the assignment of revenues, especially the assignment of personal income tax collections, reflect a tug-of-war over resources between the federal and regional governments. As Table 8.7 shows, in recent years fiscal policy reforms have aimed at reassigning tax revenues away from subnational governments and towards the federal government. The federal government's share of overall tax collections reached 60 per cent in 2001, up from a low of 42.5 per cent in 1997.

As noted earlier, a particularly important source of fiscal disparities is the extremely uneven distribution of natural resources, especially oil and natural gas. The significance of uneven distribution was emphasized by tax reforms

Table 8.7 Legislated sharing rates for major taxes between the federal government and the regions, 1991–2002 (percentage of the total)

	Law on basic principles of taxation, 1991		1992, Q1		1992, Q2–Q4		1993		1994, Q1		1994, Q2–Q4		1995		1996		1997		1998		1999, Q1		1999, Q2–Q4		2000		2001		2002	
Tax	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions	Federal government	Regions
VAT[a]	100	0	negotiable		80	20	80–50	20–50	75	25	75	25	75	25	75	25	75	25	75	25	75	25	85	15	85	15	100	0	100	0
Profit enterprise tax	0	100[b]	47	53	41	59	31	69	37–34[c]	63–66[c]	37–34[c]	63–66[c]	34	66	34	66	34	66	34	66	37	63	37	63	37	63	31	69[d]	31	69[e]
Personal income tax	0	100[b]	0	100	0	100	0	100	0	100	0	100	10	90	10	90	0	100	40	60	14	86[f]	14	86	16	84	1	99	0	100
Excise taxes on alcohol	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Energy excise taxes	—	—	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0
Excise taxes on domestic production	—	—	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100	0	100

— Not specified in the law.
n.a. Not applicable.
Q = Quarter.
VAT Value added tax.

a. VAT on imports, precious metals and stones is assigned 100 per cent to the federal level.
b. These taxes could be shared with the federal government.
c. The federal profit tax rate was 13 per cent. Regional profit tax rates ranged up to 22 per cent of profits for most enterprises and 25 per cent of profits for banks and insurance companies. The sharing percentages in the table are calculated based on the 13/22 and 13/25 profit tax rates.
d. In 2001, a local enterprise profits tax rate of 5 per cent was introduced, therefore the regional share also includes the local 5 per cent.
e. In 2002, a local enterprise profits tax rate was 2 per cent, therefore the regional share includes the local 2 per cent.
f. The regional share is taken as equal to the average.

Source: World Bank (1996), updated by the author.

that, for the first time in Russia's history, gave the regions a significant share of the tax revenues from mineral resources beginning in 1992 and confirmed in the Tax Code in 2002.

Actual revenues may also differ across regions because subnational governments have been granted some degree of tax autonomy. This autonomy basically consists of the choice of tax rates up to a maximum rate for three taxes: the shared part of the enterprise profit tax, with different rates for financial institutions and other enterprises; the sales tax; and the enterprise assets tax.[6] However, with just a few exceptions, regional governments are making full use of their ability to raise taxes by charging the highest allowable rates for those taxes. Nevertheless, their ability to self-finance their budgets out of own and shared taxes varies considerably, ranging from 1 per cent in Madagasnk oblast to 100 per cent in the city of Moscow.

In addition to tax policy, the federal government's expenditure policies in the regions can increase or dampen fiscal disparities. One way to look at this issue is to observe direct expenditures by the federal government in the regions, which are difficult to calculate and involve some arbitrary assumptions (Table 8.8). Setting aside the extremely large figure for federal direct expenditures per capita in the city of Moscow, which reflects the allocation there of 'unallocatable' items (such as a large share of national defence expenditures, which cannot be easily identified with any particular area), the numbers in Table 8.8 tell two main stories. First, federal direct expenditures seem to help equalize fiscal disparities, because they are larger in poorer, remote areas in the Northern Area, the East Siberia Area and the Far Eastern Area. Second, though not shown in the table, is that those regional governments that by treaty or unilateral action tend to retain a higher portion of federal tax revenues, such as Tatarstan and Bashkortostan, do indeed account for the lowest federal direct expenditures per capita by a wide margin.

The most important tool the federal government uses to address the problem of fiscal disparity is the system of intergovernmental equalization transfers. This has been changing continuously during the transition as the formula used to allocate funds to the regions has continued to improve. After the 2000 reforms, the system improved in terms of its transparency, objectivity and minimization of negative incentive effects on revenue mobilization and expenditure efficiency by using measures of revenue capacity and expenditure needs to arrive at fiscal disparities. Table 8.9 shows total federal transfers by area for 1997–2000 and budgeted equalization transfers for 2001. As a percentage of the total, regions in the North Caucasian Area receive the largest amount of transfers, followed by regions in the Far Eastern Area. The Central Area is also an important recipient, as are West and East Siberia.

In per capita terms, the rankings are somewhat different, with the regions in the Far Eastern Area and the North Caucasian Area being significantly

Table 8.8 Federal direct expenditures by area, 1998

Area	Population (thousands)	Federal direct expenditure per capita (Rub)	Total federal direct expenditure (Rub thousands)
Northern Area	5785	526	3 043 922
Northwestern Area	7989	500	3 998 013
Central Area, of which	29 651	2057	60 988 759
city of Moscow	8629	6074	52 412 546
Volgo-Vyatsk Area	8376	280	2 342 736
Central Chernozem Area	7846	315	2 474 648
Povolzhsk Area	16 886	266	4 487 642
North Caucasian Area	17 707	388	6 862 222
Ural Area	20 406	260	5 299 156
West Siberia Area	15 109	544	8 219 592
East Siberia Area	9071	470	4 258 988
Far Eastern Area	7336	727	5 334 204
Russian Federation	147 105	731	107 605 984
Maximum	8629	6074	52 412 546
Minimum	20	43	20 826

Source: Goskomstat data.

ahead of the rest (Table 8.9). Note, however, that with some exceptions, federal transfers do not represent the largest share of areas' budgets,[7] for example, the share of transfers in the total revenues of the Far Eastern Area was 11.8 per cent in 2000 (Table 8.10). This share varied significantly for individual regions, for instance, for the same year, transfers represented 78 per cent of total revenues for the Tuva Republic in the East Siberia Area.

What Has Driven Federal Transfers to the Regions?

Investigators have carried out a considerable amount of research on the political economy and equity of federal transfers in Russia. The question most often asked has been whether the goal of federal transfers is to attain such economic objectives as the equalization of fiscal capacity and expenditure needs among different levels of governments, or whether they actually reflect political economy considerations and purely asymmetric treatment and are governed by the political forces of the moment. Popov (2002), Treisman

Table 8.9 Transfers to regions by area, 1997–2001

Area	1997			1998			1999			2000			2001[a]		
	Total (current Rub thousands)	Percentage share	Per capita transfer (current Rub thousands)	Total (current Rub thousands)	Per-age share	Per capita transfer (current Rub thousands)	Total (current Rub thousands)	Per-age share	Per capita transfer (current Rub thousands)	Total (current Rub thousands)	Per-age share	Per capita transfer (current Rub thousands)	Total (current Rub thousands)	Per-age share	Per capita transfer (current Rub thousands)
Northern Area	951 685	2.6	163.0	972 611	3.6	168.1	1 337 117	3.0	233.2	2 219 859	3.4	391.6	2 207 666	2.4	389.5
Northwestern Area	1 200 274	3.3	149.6	730 690	2.7	91.5	1 083 963	2.4	136.2	1 579 343	2.4	200.0	2 216 091	2.4	280.6
Central Area	4 824 125	13.3	162.1	2 698 203	10.0	91.0	4 788 192	10.8	162.1	7 750 702	11.8	264.0	10 431 548	11.3	355.3
Volgo-Vyatsk Area	2 365 394	6.5	281.2	1 441 433	5.3	172.1	2 433 732	5.5	291.7	2 552 314	3.9	307.8	5 013 809	5.4	604.7
Central Chernozem Area	1 470 193	4.1	186.8	951 745	3.5	121.3	1 768 926	4.0	226.2	2 223 207	3.4	285.7	3 302 801	3.6	424.5
Povolzhsk Area	2 654 818	7.3	157.1	1 919 319	7.1	113.7	2 686 343	6.0	159.3	3 295 345	5.0	196.1	4 818 460	5.2	286.7
North Caucasian Area	6 499 136	18.0	300.2	5 766 562	21.4	239.9	9 866 039	22.2	403.2	13 965 098	21.3	613.2	20 612 228	22.8	1166.0
Ural Area	1 742 492	4.8	85.3	1 273 856	4.7	62.4	1 695 813	3.8	83.2	1 991 825	3.0	98.0	2 479 502	2.7	122.0
West Siberia Area	5 069 274	14.0	335.8	3 961 793	14.7	262.2	5 813 714	13.1	384.9	7 661 153	11.6	509.4	11 031 684	12.0	733.5
East Siberia Area	2 413 281	6.7	264.8	2 296 029	8.5	253.1	4 152 312	9.3	459.8	7 454 078	11.3	830.7	8 707 739	9.4	970.4
Far Eastern Area	6 661 508	18.4	897.7	4 970 332	18.4	677.5	8 510 621	19.1	1173.6	14 572 554	22.1	2035.3	18 971 945	20.6	2649.7
Russian Federation	36 076 529	100.0	236.5	26 982 573	100.0	173.1	44 415 103	100.0	284.2	65 683 354	100.0	428.7	90 430 398	100.0	619.7
Maximum[b]	1 838 827	5.1	6853.3	1 491 394	5.5	4721.6	2 878 355	6.5	7062.4	4 998 161	7.6	24 015.5	7 495 647	8.1	12 516.9
Minimum[b]	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

a. Preliminary figures. Population used is that for 2000.

b. These figures apply to the individual regions and not the areas.

Source: Goskomstat data.

Table 8.10 Share of transfers in areas' total revenues, 1997–2000 (per cent)

Area	1997	1998	1999	2000
Northern Area	5.1	5.3	3.8	3.3
Northwestern Area	5.9	3.2	2.9	0.7
Central Area	4.8	2.9	3.1	12.2
Volgo-Vyatsk Area	13.9	8.5	9.2	9.0
Central Chernozem Area	10.6	6.7	8.1	7.6
Povolzhsk Area	5.7	4.5	3.8	2.9
North Caucasian Area	25.0	21.6	21.8	25.2
Ural Area	3.4	2.5	1.8	2.2
West Siberia Area	6.7	5.7	4.8	4.8
East Siberia Area	10.0	10.0	8.4	9.3
Far Eastern Area	21.3	18.7	13.4	11.8
Russian Federation	8.4	6.6	6.2	6.3
Maximum	66.0	100.0	75.0	96.2
Minimum	0.0	0.0	0.0	0.0

Source: Goskomstat data.

(1996, 2000) and others find that politics have been a major force in defining federal transfers to the regions, though the relevant political factors may have changed over time. For example, Treisman (1996) concludes that early on, the central government used federal transfers to appease troublemaking regions. Between 1992 and 1994, the regions that got treated most favourably were those that had not supported Yeltsin's government in the dispute with parliament and those that had made separatist noises through such actions as issuing declarations of sovereignty. By contrast, during 1996–98, Popov (2002) and Speckhard (1998) find that the regions that got treated better in terms of federal transfers were those that had supported the Yeltsin government in the 1995 parliamentary elections and the 1996 presidential elections.[8]

However, other studies have emphasized that transfers have been roughly compatible with regions' fiscal needs, because the bulk of federal transfers has gone to the neediest regions, thereby partially accomplishing the desirable objective of equalization (Martinez-Vazquez and Boex 2001; McAuley 1997; Stewart 1996). But as Solanko (1999) points out, whether politics or economic and fiscal needs motivated transfers in the Yeltsin years may be hard to discern because of the correlation between poor socioeconomic conditions and the antireform and anti-Yeltsin sentiments among regions early on during the transition.

THE RATIONALE FOR ASYMMETRIC FEDERALISM

One of the ways the Russian Federation has managed to cope with such a high degree of diversity has been through the differential treatment of the regions, that is, the practice of asymmetric federalism. Russia is not alone in having adopted this approach. Many multinational democracies have done so (Stepan 1999).[9]

Concepts

Even though asymmetric federalism has become a commonly used term, its meaning is not always clear and several dimensions need to be considered. To begin with, one can distinguish between *de jure* asymmetric treatment as opposed to *de facto* asymmetric treatment. In the first case, decentralization laws treat some regions more advantageously, such as providing them with wider revenue powers than other regions. In the second case, the advantage comes from how laws are actually implemented, basically discriminating in favour of or against particular regions by, for example, channelling additional funds to some regions in an ad hoc or nontransparent manner.

Another useful differentiation is between asymmetric treatment *ex ante* versus asymmetric treatment *ex post*. Asymmetric federalism implies the unequal treatment of regions *ex ante*, with regions having different powers and privileges for being what they are. *Ex post* most regions will almost certainly fair differently, because of the many other factors that affect outcomes in addition to the institutional policy framework provided by the central government.

Asymmetric federalism can manifest itself in different aspects of decentralization. For example, as concerns political decentralization, some regions may have more autonomy than others to legislate and use the trappings of nationhood. In relation to administrative decentralization, regions may have different powers to set salaries and fire and hire personnel. In the case of fiscal decentralization, regions may have different revenue and expenditure assignments.[10]

Benefits

Asymmetric federalism can be used to accommodate diverse and more or less permanent preferences and appetites for autonomy across regions. Often the different demands for autonomy are based on regions' particular history (McLure, Wallich and Litvack 1996). Asymmetric federalism can also be used to accommodate different regional administrative capabilities and state

of readiness for decentralized management (Garcia-Milá and McGuire, Chapter 7 in this volume). In the case of Russia, asymmetric fiscal arrangements appear to have arisen more from political considerations than from efficiency considerations. By accommodating different desires for regional autonomy and political independence, asymmetric federalism fit the early demands for independence by a number of ethnic republics. While Russian regions have quite different administrative capabilities, this never seemed to be a driving force for asymmetric federalism. Asymmetric federalism has also been explained as a way to address conflicts of interest and growing divergence between richer regions with stronger economic bases and more incentives to resist interregional distributions and poorer regions that are highly dependent on central transfers (Freinkman and Haney 1997). Naturally regions with fewer resources are more inclined to oppose asymmetric decentralization because the asymmetry will likely protect the interests of the wealthier regions. This process has no doubt played a role in Russia.

Stepan (1999) makes an interesting point from a cultural and linguistic perspective. He argues that some groups of individuals in a country may only be able to participate fully as individual citizens if they acquire particular rights as a group. For example, the rights to schooling, media access and freedom of religious practice correspond to the groups' rights to use its own language and culture, therefore these different needs and preferences give rise to asymmetric treatment in democratic environments. Initial conditions matter in these interpretations. For example, is the right to use a regional language an example of asymmetric treatment or is the prohibition against using a regional language an example of asymmetric treatment?

Costs

Asymmetric federalism obviously offers some advantages, whether temporary or more permanent, but not without costs. One cost is philosophical, in the sense that asymmetry means an absence of equal rights across the country. For example, if the republic of Tatarstan is allowed to retain a higher share of revenues than other regions, its citizens may receive a higher level of public services than residents in other regions. Asymmetry also tends to diminish the central government's ability to pursue national objectives, such as revenue mobilization for the delivery of services at the national level, or its ability to implement equalization at the subnational level. The asymmetric treatment of regions is often associated with a lack of transparency and with complex administrative relationships. A good example is the secret bilateral treaties the Russian federal government struck with many regions in the mid-1990s.

THE PRACTICE OF ASYMMETRIC FEDERALISM IN RUSSIA

Asymmetric federalism has played an important role in Russian federalism. From the start, asymmetric federalism played a crucial role in the struggle to keep the Russian Federation together. What followed were different manifestations of asymmetric federalism, including customized bilateral treaties between the centre and the regions and an intense constitutional debate about the nature of the Russian Federation (Lynn and Novikov 1997). Fundamentally, however, asymmetric federalism started for pragmatic reasons. De facto asymmetry arose simply from the fact that several regions were demanding more autonomy and disregarding federal laws and the central authorities were incapable of enforcing federal laws.[11]

The most intense demands and declarations of independence were coming from ethnic republics such as Tatarstan, Bahskiria and Chechnya. While in the case of Tatarstan and Bahskiria the situation was managed through the negotiation of treaties with the federal government as early as 1993, in the case of Chechnya it led to a bloody civil war. A number of natural resource-rich regions, for example, Sakha (Yakutia) and Tyumen, demanded special arrangements and treatment on the basis that they had been exploited for their natural resources, which had resulted in environmental degradation, and had never benefited from their wealth. Less aggressive in their demands, at least at the beginning of the transition, were the industrially well endowed and generally wealthier regions, but later on these regions joined the chorus of complaining regions, in their case arguing about being forced to subsidize poorer regions.

These different treatments became *de jure* asymmetric treatment when the new 1993 constitution made asymmetric treatment legal and standard. Legally, asymmetric arrangements were also formalized in the different charters and constitutions of the regions, and in the case of many republics, their national constitutions appeared to be at odds with the constitution of the Russian Federation (Lynn and Novikov 1997). The regional charters and constitutions used a different definition of the bilateral relationship between the regions and the centre, especially in relation to specific arrangements relating to revenue and expenditure assignments.

After some six or seven years of transition, asymmetric federalism was being slowly but surely dismantled, a trend that started in the closing years of the Yeltsin presidency and accelerated after Putin became president. Indeed, one of Putin's first important moves was to cut back the power of regional governors, including assigning himself the authority to remove incompliant governors from office. This section takes a closer view of how asymmetric federalism has evolved in the Russian Federation. Russia's experience may

provide one of the richest examples of asymmetric federalism, with all the advantages and disadvantages that come with it.

Russia's Path to Asymmetric Fiscal Relations, 1992–93

In the early years of the Yeltsin presidency (1992–93), pressures to contain and mitigate powerful centrifugal forces dominated intergovernmental fiscal relations. Many regions were attempting to position themselves to benefit as much as possible from the political and institutional weaknesses of the centre at this stage of the transition. These same regions often flaunted federal laws, and by doing so, imposed explicit costs and negative externalities on other regions. The federal authorities' desire to find conditions acceptable to troublemaking regions inevitably led to different forms of asymmetric fiscal federalism.[12]

Regional assertiveness, especially on the part of the ethnic republics, reached its peak during 1992–93, when Yeltsin and the Supreme Soviet (parliament) were involved in a power struggle. Even thought the Federation Treaty of March 1992 gave the ethnic republics some additional powers, the 1993 constitution took these powers away. However, the constitution itself opened the door to new forms of asymmetric treatment by virtue of allowing bilateral treaties between the federation and regional governments.

To a large extent, the asymmetric federalism of the early years of the transition was *de facto*. The regions ignored or disobeyed federal laws, in particular, several important laws enacted during the early period of transition, such as the 1991 Law on the Foundations of the Tax System in the Russian Federation (Igudin 1998; Lavrov 1998; Wallich 1994). The ambiguity of the 1993 constitution about such fundamental questions as the inalienable rights of the regions did not help the situation (Teague 1996), and these important issues were left to be decided in practice.

By allowing the federal government to enter into secret bilateral treaties with regional governments, the 1993 constitution legalized the practice of asymmetric federalism, and this became reality through the allegedly favourable treatment given to the ethnic republics of Tatarstan and Bashkortostan in the first two treaties. This fits the view that the federal government provided systematically more advantages and privileges to the politically difficult regions to bribe the regional opposition and tame centrifugal forces. In short, Moscow has tended to reward rather than punish defiant regions. As Wallich (1994) and others argue, this type of response created an asymmetric federalist system starting in 1992 whereby, according to Lavrov (1995), a pattern was established that favoured the 21 ethnic republics over the other regions in the form of larger subsidies, permission to retain a higher share of tax collection, and special decrees granting economic benefits. While in early

1992 just a few regions had stopped or greatly reduced their remittances to the federal government, namely, Tatarstan, Chechnya, Sakha (Yakutia) and Bashkortostan, by the end of 1992 similar problems had arisen with 20 regions, and by 1993, this number had increased to 30 regions (Wallich 1994).

Asymmetric Relations in 1994–97

The 1993 constitution's formal acceptance of asymmetric relations through bilateral treaties—which covered such issues as budgetary relations, state property, ownership and use of natural resources and migration—restored some predictability and order to the system of intergovernmental fiscal relations. While confrontations between the federal government and some regions continued to test the federation's strength during this period, the nature of these confrontations tended to shift from centrifugal tensions towards a competition between the regions for special recognition and favourable fiscal arrangements.

The constitution declared all subjects of the federation equal, although it also granted the ethnic republics special rights, such as passing their own constitutions. However, the constitution gave basically the same rights in one form or another to all the regions.[13]

While the bilateral treaties provided an official acknowledgement of regional power, the general pattern of behaviour among the regions became less chaotic and threatening to Russia's unity with the notable exception of Chechnya. Another sign of the regions' power during this period was the regional governments' absolute discretion to organize their relationships with their local governments.

One central feature of the asymmetric treatment of the regions during this period was that not all the regions had a bilateral treaty with the federal government. Indeed, other regions' growing resentment against the ethnic republics had become apparent and not surprising. In 1995, many other regional governments tried and succeeded in getting bilateral treaties with Moscow. Although concessions granted to some regions affected bargaining with other regions, not all treaties came out the same (Solnick 1995).

Many observers have concluded that the problems with Russian federalism during this time were the manifestation of a weak federal government, the absence of cooperation between the centre and the regions and a common pool (or 'tragedy of the commons') problem. This is a main theme in Blanchard and Shleifer (2000); Lavrov, Litwack and Sutherland (2000); and OECD (2000). Blanchard and Shleifer (2000), in particular, emphasize that the contrast between the success of China's transition versus the failure of Russia's occurred because China was able to retain a strong political centre.

Mending Russia's fiscal federalism problems required strengthening the

political and institutional power of the centre relative to the regions (see also the discussion in Martinez-Vazquez and Boex 2001; Shleifer and Treisman 2000), and Russia would have to wait until Putin's election as president for a significant turnaround in the relationships between the centre and the regions. However, the situation may have involved more than a weak centre. For example, de Figueiredo, Rui and Weingast (2001) observe that a problem with Russian federalism was the lack of appropriately defined limits on the central government. They maintain that in some way the federal government was too strong, given its ability to change rules pertaining to and extract rents from the regions, which detracted from the regions' perceptions of benefits resulting from participation in the federal relationship. From this perspective, solving the problem of noncooperation required not only more power for the centre, but simultaneously credible limits on the centre, which had acted and could continue to act without self-restraint in the pursuit of its own interests. For example, at the start of the transition the federal government dumped expenditure responsibilities on the regions without adequate funding and has continued to control virtually all tax and regulatory powers, while the regions depend on the centre for most of their budget funding and are therefore subject to the whims of federal authorities.

Retreat from Special Treatment: Yeltsin 1998–99

In addition to generating mistrust and resentment among the regions, asymmetric federalism in general, and the bilateral treaties in particular, had other significant costs. One of them was the mounting fiscal pressure on the federal budget that became increasingly noticeable during the first six months of 1998 (see, for example, World Bank 2001). The conflicting budget demands at the regional and federal levels and the federal government's inability to collect revenues eventually resulted in a federal deficit as high as 10 per cent of gross domestic product. At the same time, both the federal and regional governments continued to borrow heavily domestically and abroad. All levels of government also proceeded to accumulate payment arrears while becoming more frequent users of mutual settlements (noncash offsets) and barter. The combination of increased deficits, tight money supply and fixed exchange rates led to the August 1998 crisis, with the devaluation and floating of the ruble and the federal government's default of most of its domestic debt, which in turn precipitated a banking crisis.

The August 1998 crisis provided the federal government with an opportunity to re-evaluate its policies on many fronts, including its budgetary relationships with the regions. One of the issues examined was the role the bilateral treaties had played in the crisis. This examination showed that the special fiscal treatment provisions in the treaties had contributed to the

mounting fiscal pressures that eventually led to the crisis. Undoing the damage caused by the bilateral treaties and special deals proved difficult. Nevertheless, the retreat from asymmetric treatment clearly started in the late Yeltsin years by the federal government simply not always complying with provisions in the treaties. At this time, the federal government also started a serious recentralization of fiscal resources (Martinez-Vazquez and Boex 2001). These efforts involved introducing deeper tax reforms that eventually included the Tax Code, the Budget Code, the Law on the Financial Foundations of Local Self-Government and the so-called concept of reform of intergovernmental relations in the Russian Federation for 1999–2001. Another law, the Law on the Principles for the Demarcation of Jurisdictions and Powers, enacted in June 1999, clearly restated the supremacy of the federal constitution, federal legislation and federal decrees over regional constitutions, legislation and decrees. One clear feature of all these documents was the new willingness of the federal government to intervene in fiscal arrangements between regional governments and their local governments.

The Putin Era: 2000–02

Putin came to power in March 2000 with what now seems a clear mandate to control the regional governments and re-assert the role of the federal authorities. For example, in May 2000, the Chief Prosecutor's Office declared that 60 regions had local laws, including regional charters or constitutions, that seriously contradicted federal laws, and in June 2000, Putin's appointed chief prosecutor gave the regions one month to synchronize their laws with federal laws.

This was just the beginning. Following his election, Putin took a number of steps to strengthen the federal position in relation to the regional governments. In May 2000, he issued a decree that divided Russia into seven groups of regions (the federal districts), each with a presidential envoy (or plenipotentiary) to monitor regional legislation and ensure that regional administrations were abiding by federal laws. Furthermore, the State Duma (or lower house of parliament) approved legislation that gave the Russian president the power to suspend regional legislation that conflicted with federal law, as well as the power to dismiss regional governors if their actions were judged to be in violation of federal statutes. The makeup of the Federation Council, the upper chamber of parliament, was redone by replacing the governors with regional representatives elected by the regional legislatures. In the past, as members of the Federation Council the regional governors had often played an obstructionist role. These legal changes gave the federal authorities effective instruments to deal with even the most recalcitrant regions, excluding Chechnya. The best evidence that the federal government has regained much authority is that Tatarstan is adopting amendments to its constitution to bring

it closer in line with the Russian constitution and other legislation (East West Institute 2002a). Nevertheless, some regions are resisting, for example, Bashkortostan is holding on to its declaration of sovereignty and President Murtaza Rakhimov has run for office a third time on his sovereignty platform (East West Institute 2002b).

Putin's administration continued the recentralization of revenues that had started in the late years of the Yeltsin administration. Following his election to the presidency, Putin managed to get four chapters of the second part of the Tax Code approved by the State Duma, which had a profound impact on regional finances. Subnational government turnover taxes, which provided a substantial level of own source revenues for local and regional governments, were substantially reduced and are scheduled to be eliminated, and the overhaul of the personal income tax also reduced subnational revenues.

HOW WELL DID ASYMMETRIC FEDERALISM WORK?

Given the significant differences among Russia's regions, including different demands for fiscal and political autonomy, and the extremely weak institutions at the federal level, allowing asymmetric decentralization was the right thing to do. But what is interesting about Russia's experience with asymmetric federalism is that its practice was not at first a voluntary or conscious policy choice by the federal authorities. Instead, as noted earlier, asymmetric policies were forced onto the federal government by the unilateral actions of some regional governments. After a while, asymmetric federalism was formally adopted in the constitution approved in 1993 as an explicit and deliberate policy of the federal government. In recent years, the trend has been reversed, with deliberate efforts made to eliminate the most important manifestations of asymmetric federalism.

The difficult question is whether asymmetric federalism was a cure for national frailties or a poison of the national body politic. The answer is that it was probably both a cure and a poison at different times during the transition. Initially, the asymmetric treatment of regions served to stem the enormous centrifugal forces in operation at the start of the transition. The positive results occurred at a time when federal institutions were weak and unable to enforce its national laws (Solnick 1995). Its fear of being unable to enforce legislation may have caused the federal government to consider bilateral negotiations as a solution. Thus Moscow's strategy of buying consent from the regions was largely imposed by circumstances and was the only democratic way out. Prior to the introduction of the bilateral treaties, Moscow was having a hard time holding the country together. Separatist threats and resistance to federal policies by a group of regional governments were constant.

The bilateral treaties had the strategic effect of weakening any coordinated action and demands by the ethnic republics that had been most antagonistic to Moscow. The treaties are also widely acknowledged as having prevented the secession of some of those ethnic republics, such as Tatarstan.[14]

The net impact of asymmetric federalism in the first half of the transition decade was probably to rein in the powerful centrifugal forces that existed in Russia at that time.[15] Naturally, we cannot know how things would have developed if different decisions at been made at the time. For example, the conflict in Chechnya undoubtedly had a profound impact on the scope and depth of other regions' demands. Thus the moderating effects of asymmetric federalism may have resulted from how Moscow handled the Chechnya conflict. From early on, many in Moscow appeared to view the conflict in Chechnya as the line in the sand for the future viability of the Russian Federation. The supporters of armed intervention emphasized the need to bring the secessionist leadership to heel to prevent the break-up of the entire country (Lapidus 1999).

However, what had been a solution to a serious problem soon turned into a serious problem itself. Asymmetric treatment of what were supposed to be equal subjects of the federation rapidly gave rise to resentment, lack of solidarity and noncooperative behaviour by the regions, leading to a situation akin to the tragedy of the commons. A weakened federal government was unable to stop this process. By 1995–96, asymmetric federalism was increasingly poisoning the national fabric. Because of asymmetric federalism, almost all the regions had an incentive to deviate from cooperative behaviour and press for special treatment with the federal authorities or try to take matters into their own hands, such as illegally retaining federal revenues (see Eckardt 2002 for a discussion of some of these issues). For many observers, large and sustained federal budget deficits, the federal government's inability to impose fiscal discipline and the financial crisis of 1998 were all associated with the form of fiscal federalism practiced. The privileged treatment of some regions was an important flaw in Russia's federalism that had to be changed as disparities grew in terms of the quality and quantity of public services (Martinez-Vazquez and Boex 2001). In this respect, the dilemma the government faced is familiar to any country trying to develop its regions in a balanced way. Maintaining living standards in all regions may actually retard overall economic development. Perhaps a more important manifestation of the system's inadequate performance was the extensive failure to harmonize regional and national interests: a number of regions and their governors appeared to be willing to inflict high costs on the rest of the country for minimal gains to themselves.

Not long after the crisis of August 1998, consensus arose about the need to retreat from the asymmetric treatment of the regions and to rein in regional

governors. Even though the federal government tried to do this in the later years of the Yeltsin administration, it did not happen until Putin's election as president.

WHAT DOES THE FUTURE HOLD?

Russia's system of fiscal federalism will continue to evolve in the future. The Russian Federation is still a young country, as reflected by its system of fiscal decentralization. Of course, international trends affect Russia as much as they do other countries, and one of these trends is globalization. As some regions increase their commercial links with other parts of the world, the value of the domestic market and other common domestic institutions may be diminished for these regions, resulting in more centrifugal pressures, especially in the far-flung areas such as the Far East, the North Caucasian and the Northwest areas, although for the present the main beneficiaries of globalization have been the city and oblast of Moscow, neither of which are likely to adopt a separatist agenda. At the same time, international trade increases the federal government's leverage through its control of customs, pipelines, railroads and so on. Thus, for example, shipments of oil from landlocked Tatarstan are entirely in the hands of the federal authorities. In the past, Moscow has refused to issue import-export licenses to companies headquartered in troubled regions or threatened to close oil pipelines.

On the domestic front, several important issues will take centre stage in the immediate future. How the federal government addresses these issues will define Russia's fiscal federalism in the decades to come. The first issue is asymmetric federalism and the status of the bilateral treaties. After several years of Putin's administration, as noted earlier, the need for asymmetric federalism has been put into question. When running for president in early 2000, Putin was clear about his intentions to restore and strengthen the authority of the federal government over the regions. He has kept this election promise. Most regions have ceased to act from a 'what can we get' perspective and have begun to ask 'what can we keep' from the concessions won during the past seven or eight years. Thus the regional mavericks are in retreat, but they are far from defeated. In relation to the bilateral treaties, the official view in Moscow during the Putin administration years has been that they are an important impediment to the rationalization and reform of intergovernmental fiscal relations. While some regional governors renounced their bilateral treaties with Moscow soon after Putin had made his opposition to them public, others adamantly refused to give them up. Not surprisingly, ethnic and richer regions have been more likely to try to keep their treaties with Moscow in place. In his annual address to the State Duma in April 2002, Putin reiterated

his position that the bilateral treaties signed 'behind the backs' of the other regions have outlived their usefulness. He also made the point that if any of these treaties remain in place, they should be approved by the State Duma so that 'everyone knows who has what preferences and why'.

The second issue is the growing fiscal disparity and whether national solidarity can address this. Economic disparities will probably continue to increase, because of the sites selected for domestic and foreign investment and because of the concentration of natural resources. In turn, pressure on the federal budget to redress the imbalances will also increase. Inevitably, regardless of the form the equalization system takes, the additional resources will have to come from the better-off regions. The question is how much tolerance these regions will exhibit towards poorer regions, which in some cases the richer regions may perceive as inefficient or corrupt. Without support from the richer regions, it will become harder for the federal government to undertake effective equalization, but growing disparities and concentrations of poverty will pose political risks, especially at the periphery of the country. Putin's popularity and his ability to maintain good relations with the regions and the State Duma may stave off these tendencies for some time, but the underlying problems are unlikely to dissipate and could flare up.

The third issue is whether the federal government will intervene any further in the restructuring of the relationships between regional and local governments. The current administration continues to stress its strong support for local governments, and the federal government has worked on several proposals to provide separate assignments at the local level. How these will translate into concrete legislation on fiscal issues, such as separate revenue and expenditure assignments or mandated formula transfers, remains to be seen. Of course, if approved such changes would weaken the grip of regional governments and governors over local governments.

The fourth issue is whether the federal government will push for administrative and political reform in the regions. Consolidation of the regions into fewer regions, which would not only reduce administrative costs, but could also help address the need for asymmetric arrangements and for fiscal equalization, is an issue that has been discussed for some time. In particular, a series of proposals originating with the State Duma suggest either allowing regions to merge on a voluntary basis or forcing them to merge. The most repeated proposal is the elimination of the ten AOs and one autonomous oblast and their assimilation by the surrounding oblasts and krays. Many have interpreted Putin's recent creation of the seven federal districts headed by directly appointed plenipotentiaries as the first step towards regional consolidation. However, even more recently, Putin has made it clear that he does not want the federal districts to develop into quasi states or quasi republics. Thus

far, the federal districts have been used to de-concentrate federal power and exercise more active and effective supervision of the regions' actions.

An important recent development in relation to fiscal federalism was Putin's appointment of a high-level commission in 2001, known as the Kozak Commission, to redefine and reform intergovernmental fiscal relations. The commission issued recommendations in September 2002, but Putin decided to send the recommendations to the State Council, a consultative body, for further consideration before sending any bills to parliament. These recommendations include the need to adequately fund each level of government according to its assigned expenditure responsibilities, which may be interpreted as more money and tax autonomy for subnational governments. The increase in revenue autonomy will not negate the need for transfers, because only a tiny minority of Russia's 13 000 local governments have enough money to meet or exceed their present expenses with their current revenue assignments).

One of the most divisive issues is the reassignment of revenues from taxes from natural resources. The Kozak Commission report appears to argue that these revenues should be recentralized and then redistributed more fairly among the regions. Furthermore, the commission recommends abandoning the so-called two key practice, whereby both federal and regional governments must provide licenses for the exploitation of natural resources, for full and exclusive federal control. Naturally the natural resource-rich regions are completely opposed to this suggestion.

Russia has made a remarkable journey over the past decade. It has returned from the brink of disintegration and chaos to become a young, but still fragile, democracy. The challenge for the future remains, however, to find the appropriate balance between the rights of the regions, including respect for and acceptance of their diversity, and a federal government capable of enforcing the law and protecting and defending common national interests. Whether this balance can be maintained in the future without the asymmetric treatment of the regions and with respect for basic democratic principles remains to be seen.

Appendix: Key features of regions, selected years

Name of area	Area, 2000 (thousands of km²)	Population, 2000 (thousands of people)	Population density, 2000 (people per km²)	GRP, 1998 (Rub thousands)	GRP per capita, 1998 (Rub thousands)	Percentage of area	Percentage of population	Percentage of GDP
Northern Area	1466.3	5668	3.9	110 383	19.1	8.59	3.88	4.59
Karelia	172.4	766	4.4	11 306	14.6	1.01	0.52	0.47
Komi	415.9	1135	2.7	28 350	24.4	2.44	0.78	1.18
Arkhangel oblast	410.7	1414	3.4	22 763	15.3	2.41	0.97	0.95
Nenetsky AO	176.7	46	0.3	—	—	1.03	0.03	—
Vologot oblast	145.7	1324	9.1	24 118	18.0	0.85	0.91	1.00
Murmansk oblast	144.9	983	6.8	23 847	23.4	0.85	0.67	0.99
Northwestern Area	197.1	7898	40.1	126 866	15.9	1.15	5.41	5.28
St Petersburg	0.6	4694	7823.3	89 781	18.9	0.00	3.22	3.74
Leningrad oblast	85.9	1674	19.5	21 171	12.6	0.50	1.15	0.88
Novgorod	55.3	729	13.2	9402	12.7	0.32	0.50	0.39
Pskov	55.3	801	14.5	6512	7.9	0.32	0.55	0.27
Central Area	484.0	29 361	60.7	615 670	20.8	2.83	20.12	25.63
Bryan oblast	34.9	1443	41.3	11 884	8.1	0.20	0.99	0.49
Vladimir oblast	29.0	1609	55.5	15 995	9.8	0.17	1.10	0.67
Ivanov oblast	21.8	1222	56.1	9050	7.3	0.13	0.84	0.38

Kaluzh oblast	29.9	1081	36.2	10 916	10.0	0.18	0.74	0.45
Kostroma oblast	60.1	786	13.1	8882	11.1	0.35	0.54	0.37
Moscow	1.0	8631	8631.0	362 520	42.0	0.01	5.91	15.09
Moscow oblast	47.0	6511	138.5	100 612	15.3	0.28	4.46	4.19
Orlov oblast	24.7	899	36.4	10 246	11.3	0.14	0.62	0.43
Ryazan oblast	39.6	1284	32.4	14 186	10.9	0.23	0.88	0.59
Smolensk oblast	49.8	1133	22.8	12 234	10.6	0.29	0.78	0.51
Tver	84.1	1602	19.0	17 747	10.9	0.49	1.10	0.74
Tul oblast	25.7	1746	67.9	19 051	10.7	0.15	1.20	0.79
Yaroslav oblast	36.4	1414	38.8	22 348	15.6	0.21	0.97	0.93
Volgo-Vyatsk Area	265.4	8292	31.2	97 686	11.7	1.55	5.68	4.07
Mariy El	23.2	759	32.7	6568	8.6	0.14	0.52	0.27
Mordoviya	26.2	929	35.5	9323	9.9	0.15	0.64	0.39
Chuvashiya	18.3	1357	74.2	12 123	8.9	0.11	0.93	0.50
Kirov oblast	120.8	1589	13.2	16 931	10.5	0.71	1.09	0.70
Nizhegorod	76.9	3658	47.6	52 741	14.3	0.45	2.51	2.20
Central Chernozem Area	167.7	7781	46.4	87 858	11.2	0.98	5.33	3.66
Belgorod	27.1	1497	55.2	19 609	13.2	0.16	1.03	0.82
Voronezh	52.4	2459	46.9	23 907	9.6	0.31	1.69	1.00
Kursk	29.8	1316	44.2	16 827	12.6	0.17	0.90	0.70
Lipetsk	24.1	1240	51.5	17 043	13.7	0.14	0.85	0.71
Tambov	34.3	1269	37.0	10 472	8.1	0.20	0.87	0.44

Appendix (continued)

Name of area	Area, 2000 (thousands of km²)	Population, 2000 (thousands of people)	Population density, 2000 (people per km²)	GRP, 1998 (Rub thousands)	GRP per capita, 1998 (Rub thousands)	Percent-age of area	Percent-age of population	Percent-age of GDP
Povolzhsk Area	536.4	16 805	31.3	240 021	14.2	3.14	11.52	9.99
Kalmykiya	76.1	316	4.2	1704	5.4	0.45	0.22	0.07
Tatarstan	68.0	3779	55.6	67 700	17.9	0.40	2.59	2.82
Astrakhan	44.1	1024	23.2	10 773	10.5	0.26	0.70	0.45
Volgograd	113.9	2678	23.5	30 907	11.4	0.67	1.84	1.29
Penza	43.2	1531	35.4	11 131	7.2	0.25	1.05	0.46
Samara	53.6	3297	61.5	72 662	22.0	0.31	2.26	3.02
Saratov	100.2	2712	27.1	28 663	10.5	0.59	1.86	1.19
Ulyanov oblast	37.3	1468	39.4	16 482	11.1	0.22	1.01	0.69
North Caucasian Area	374.4	17 677	47.2	148 653	8.4	2.19	12.11	6.19
Adygeya	7.6	449	59.1	3384	7.5	0.04	0.31	0.14
Dagestan	50.3	2149	42.7	8652	4.1	0.29	1.47	0.36
Ingushetiya	19.3	488	25.3	1053	3.4	0.11	0.33	0.04
Chechnya	12.5	574	45.9	—	—	0.07	0.39	—
Kabardino-Balkar	14.1	792	56.2	6361	8.0	0.08	0.54	0.26
Karachaevo-Cherkes	8.0	435	54.4	2854	6.5	0.05	0.30	0.12
Alaniya	19.3	674	34.9	4142	6.2	0.11	0.46	0.17

Krasnodar	76.0	5067	66.7	53 732	10.6	0.45	3.47	2.24
Stavropol	66.5	2691	40.5	28 591	10.7	0.39	1.84	1.19
Rostov	100.8	4358	43.2	39 886	9.1	0.59	2.99	1.66
Ural Area	824.0	20 321	24.7	306 038	15.0	4.83	13.93	12.74
Bashkortostan	143.6	4117	28.7	64 191	15.6	0.84	2.82	2.67
Udmurtiya	42.1	1633	38.8	20 014	12.2	0.25	1.12	0.83
Kurgan	71.0	1097	15.5	9684	8.8	0.42	0.75	0.40
Orenburg	124.0	2224	17.9	28 770	12.9	0.73	1.52	1.20
Perm	127.7	2814	22.0	55 594	18.6	0.75	1.93	2.31
Komi-Permyatsky AO	32.9	152	4.6	—	—	0.19	0.10	—
Sverdlov	194.8	4612	23.7	80 675	17.3	1.14	3.16	3.36
Chelyabinsk	87.9	3672	41.8	47 110	12.8	0.51	2.52	1.96
West Siberia Area	2427.2	15 040	6.2	356 823	23.6	14.21	10.31	14.85
Altay	92.6	205	2.2	1634	8.1	0.54	0.14	0.07
Altaysky Kray	169.1	2653	15.7	22 411	8.4	0.99	1.82	0.93
Kemerovskaya oblast	95.5	2987	31.3	45 644	15.1	0.56	2.05	1.90
Novosibirk oblast	178.2	2744	15.4	35 231	12.8	1.04	1.88	1.47
Omsk oblast	139.7	2163	15.5	29 466	13.5	0.82	1.48	1.23
Tomsk	316.9	1067	3.4	21 232	19.8	1.86	0.73	0.88
Tyumen	161.8	1358	8.4	201 206	62.7	0.95	0.93	8.38
Khanty-Mansiysky AO	523.1	1368	2.6	—	—	3.06	0.94	—
Yamalo Nenetsky AO	750.3	495	0.7	—	—	4.39	0.34	—

Name of area	Area, 2000 (thousands of km²)	Population, 2000 (thousands of people)	Population density, 2000 (people per km²)	GRP, 1998 (Rub thousands)	GRP per capita, 1998 (Rub thousands)	Percentage of area	Percentage of population	Percentage of GDP
East Siberia Area	4122.8	8973	2.2	158 566	17.5	24.14	6.15	6.60
Buryatiya	351.3	1035	2.9	11 167	10.7	2.06	0.71	0.46
Tuva	170.5	311	1.8	1847	6.0	1.00	0.21	0.08
Khakassiya	61.9	581	9.4	8192	14.0	0.36	0.40	0.34
Krasnoyarsk kray	710.0	2978	4.2	71 548	23.2	4.16	2.04	2.98
Taimyrsk AO	862.1	43	0.0	—	—	5.05	0.03	—
Evenkiysk AO	767.6	18	0.0	—	—	4.50	0.01	—
Irkutsk Oblast	745.5	2604	3.5	52 620	19.0	4.37	1.78	2.19
Byryatsk AO	22.4	144	6.4	—	—	0.13	0.10	—
Chitinsk oblast	412.5	1180	2.9	13 191	10.3	2.42	0.81	0.55
Aginsky AO	19.0	79	4.2	—	—	0.11	0.05	—
Far Eastern Area	6231.0	7160	1.1	153 717	21.0	36.49	4.91	6.40
Sakha	3103.2	977	0.3	33 375	33.3	18.17	0.67	1.39
Evreyskaya AO	36.0	199	5.5	1832	8.9	0.21	0.14	0.08
Chukotsk AO	737.7	72	0.1	2593	32.0	4.32	0.05	0.11
Primorsk kray	165.9	2174	13.1	31 473	14.2	0.97	1.49	1.31
Khabarovsk kray	788.6	1518	1.9	30 073	19.5	4.62	1.04	1.25
Amursk oblast	363.7	1006	2.8	14 739	14.4	2.13	0.69	0.61

Kamchatska oblast	170.8	354	2.1	11 136	28.1	1.00	0.24	0.46
Koryaksk AO	301.5	29	0.1	—	—	1.77	0.02	—
Magadan oblast	461.4	233	0.5	6735	27.4	2.70	0.16	0.28
Sakhalin oblast	87.1	598	6.9	13 100	21.1	0.51	0.41	0.55
Kaliningrad oblast	15.1	949	62.8	8659	9.2	0.09	0.65	0.36
Russian Federation	17 075.4	145 925	8.5	2 402 280	16.3	100.0	100.0	100.0
Maximum	3103.2	8631	8631.0	362 520	62.7	18.17	5.91	15.09
Minimum	0.6	18	0.0	1053	3.4	0.00	0.01	0.04

— Not available.
AO Autonomous okrug.
GDP Gross domestic product.
GRP Gross regional product.

Source: Goskomstat data.

NOTES

1. Oblast is a name for the subnational entity in several Slavic languages. The word kray (which also means border or end), is used for regions located along the economic and geographic periphery. Okrug is a Slavic adaptation or translation from German kreis, a term that denotes administrative subdivision. The autonomous okrugs are administered as separate parts of the oblasts and krays, but for reporting and statistical purposes, the autonomous okrugs are often incorporated into the surrounding oblast or kray.
2. In June 2001, the federal government and the World Bank agreed to a loan of US$80 million to resettle inhabitants of the far north to reduce the needs for public support. Helping the same families in other parts of Russia with more moderate climates and better access to public services is definitely cheaper than helping them if they remain in the far north.
3. In Soviet times, the authorities enforced restrictions on internal mobility by issuing residency permits and internal passports.
4. There is, of course, rich history to accompany each ethnic republic and AO. For example, Tatarstan, one of the most colourful and assertive ethnic regions, has been part of Russia since 1552, when Czar Ivan the Terrible entered Kazan, the capital, defeating the khanate of Kazan.
5. The red belt consists of those predominantly agricultural and nonurban regions that consistently voted for the Communist Party during the transition. Berkowitz and DeJong (1998) find evidence of virtual internal borders in these regions, explained by their protective and centrally controlled economic policies.
6. Unlike the enterprise profit tax, which is a federal tax shared with subnational governments, the sales tax and the enterprise assets tax are 100 per cent local taxes (and therefore not shown in Table 8.7). The federal government eliminated the (local) sales tax in 2004.
7. Remember that tax sharing is not considered to be part of the equalization transfers.
8. Note that differences in findings may reflect the use of different definitions of transfers. For example, Popov (2002) uses a more comprehensive definition of transfers than Treisman (1996).
9. Some multinational democracies assign different legal, linguistic and cultural competencies to their regions, for instance, Belgium, Canada, India, Russia and Spain.
10. In the case of transfers, even under perfectly symmetric federalism, regions will receive different amounts, reflecting differences in need, capacity and so on. Transfers are a complex, grey area in terms of asymmetric federalism. Formula-driven and objective procedures to determine transfers may be considered symmetrical treatment *ex ante;* however, in many countries equalization formulas have been reshaped and twisted to accommodate the interests of particular regions.
11. McLure, Wallich and Litvack (1996) report that by mid-1992, some 20 regions had unilaterally declared that they alone would decide what portion of taxes their regions would share with the federal government, the so called single channel arrangement, and by mid-1993 some 30 regions had done so. Naturally these sharing rates were lower than those the Ministry of Finance had in mind.
12. To some extent, asymmetric federalism was also practiced in the Soviet Union, because subnational budgets were customized on the basis of negotiated expenditure norms, regulated revenue sharing rates and negotiated transfers.
13. In particular, article 77 of the constitution establishes that the regions will determine their system of government, but must follow federal principles of legislative and executive powers, which requires direct election of the head of government, something that many of the ethnic republics were already doing. In 2004, President Putin announced plans to return to the old system of having heads of regional governments appointed from the centre.
14. According to an article in the *New York Times* (9 March 2000), long-standing Tatarstan President Mintimer Shaimiyev maintains that the push towards sovereignty, and even the flaunting of the Russian constitution in the first years of the transition, defused Tatarstan's seething nationalist sentiment. That produced much better results than Chechnya's attempt to break away by means of armed resistance. See also the discussions in Freinkman and Haney (1997) and Treisman (1996).
15. However, not everyone agrees on the effectiveness of the asymmetric federalism as practiced. In the view of Ordeshook (1995) and Polishchuk (1996), the political system failed to

accommodate the regions' diverse economic and political interests, which during the Yeltsin years led to more political conflict and economic instability than was necessary.

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