

Russian Federalism at a Crossroads

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Russia will soon complete the implementation of the program of fiscal federalism it started in 2001. The program promised discipline, a transparent system of intergovernmental fiscal relations, and clearly assigned expenditure responsibilities and revenue sources. While the program is among the few that the Russian government has successfully fulfilled, events in Russia since its onset have led some to question whether it is possible to maintain fiscal federalism in a country increasingly veering away from political federalism. Whatever the answer, one thing is clear: revenue autonomy on the part of constituent units will be a key factor in the success of fiscal federalism – a fiscal federalism that many hope will pave the road back to political federalism.

At the beginning of Russia's development towards federalism in the early 1990s, the central government offered the states as many powers as they sought – a move many believe saved the country from disintegration. However, the autonomy of the states soon became an obstacle to the development of an integrated nation. It was in order to overcome the centrifugal tendencies and increasing asymmetry in federal relations that the government adopted a program of fiscal federalism.

In the course of the program implementation, the government adopted laws that increased legislative and executive powers in state and local governments. The laws brought federal legislation in line with the new assignment of responsibilities in which resources and responsibilities were centralized while political power remained decentralized. The states retained discretion over several important areas (e.g., health care and education) in which the central government promised not to interfere.

After the Beslan school hostage crisis in September 2004, the federal government took more serious measures to concentrate political power. Among the most controversial was the president bypassing direct gubernatorial elections to appoint governors himself. As a result, governors have become integral to the national executive power base and an increasing number of central government powers have been ceded to territorial units, a process referred to as “deconcentration.” Thus, Vladimir Putin's strategy of federalism has become clear: the federal centre appoints regional authorities, assigns them responsibilities supported with relevant funds, and keeps their spending under strict control. If public funds are ever misappropriated and the situation in a region worsens, the president possesses the means to reverse it. **There is a potential danger inherent in this strategy: once the centre has started to exercise control over the execution of federal responsibilities by the regions, it may also be tempted to assume control of regional functions that fall within joint federal-regional jurisdiction.** The danger is quite real since the regions now carry out many additional functions that are not exempt from the federal centre's interference.

Added to this is the fact that the regions have very little revenue autonomy. Today, there are only three regional taxes and two local ones. Compare this with a staggering number of close to 50 federal taxes. Since regional and local budgets in Russia are mainly comprised of federal taxes and federal transfers rather than taxes collected from citizens, the regions are not held accountable to citizens. In addition, businesses, not individuals, are the main taxpayers in Russia; as a result, governors are more interested in attracting new business into their jurisdictions than in improving the life of the people.

In 2004, regional and federal tax sources were permanently assigned to the sub-federal order, making states less dependent on annual budgetary decisions of the federal government. However, these amendments have not strengthened the revenue autonomy of the states to any noticeable degree. The same predicament applies to the equalization transfer formula: on one hand, a formalized approach to federal transfers seems to bring the regions some financial independence; on the other hand, it is the federal centre that devises the sharing formula and changes it at its will.

At the present time, Russia has no fiscal federalism program in place to improve upon the previous one. The country lacks unanimous opinion on the prospects of federalism. Most experts are of the opinion that the federal units cannot all have the same responsibilities and powers because of the great disparities that currently exist in social and economic development, political development, climate, and many other factors. In the 1990s, strong regions received additional powers under bilateral agreements with the federal centre, while the model discussed today deprives weak regions of the discretion to use their finances. A return to the asymmetrical model of federalism looks almost inevitable.

Changes to regional fiscal capacity equalization methods is one of the most discussed topics in Russia today. Many believe financial support should be given to extremely weak states under strict financial control of the federal center while the main form of support provided to such states should be one of financing capital projects that benefit not one but several states. Strictly speaking, a regional policy of this kind does not need a federal structure and limits the field of fiscal federalism.

The struggle to reconcile political federalism and fiscal federalism is a difficult one. Some experts believe Russia's present return to a unitary system will not last – that fiscal federalism will pave the way for the further development of political federalism. They point to the greater financial autonomy of the regions due to revenue sources – however scarce – assigned to them in 2004; formula-driven allocation of equalization transfers; and several federal funds that have been set up to allocate targeted transfers to the regions. Others believe that fiscal federalism and local self-governance are impossible without true revenue autonomy and that fiscal federalism cannot co-exist with a vertical axis of executive power; in other words, the highly centralized authority in Moscow trumps the ability of the regions to exercise any real powers of their own. One thing on which many can agree: in attempting to improve fiscal federalism, the country must not wait for an ideal form of federalism to appear.