

WHY RUSSIA HAS AGAIN BEEN SLIDING FROM FEDERALISM TO UNITARIANISM¹

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Abstract

Throughout the history of Russia, short periods of public administration decentralization have been replaced by long periods of centralization. In particular, and mainly with negative connotations, the tendency towards centralization in Russia – the building up of a predominantly unitary state and the departure from the principles of federalism, even in its asymmetric form – has been discussed in the last few years.

The article analyzes the reasons for the current tendency for the centralization of public administration in Russia. The main reasons, we believe, are: the command-administrative style of governance that was formed in Soviet times, supported both by the mentality of the political elite and the bureaucracy, and by the traditional paternalistic attitude of the population towards power; the lack of understanding by the center as to how to interact with the ethnic republics, aggravated by the fear of the disintegration of the country; and the existence of a centralized Budget and Tax Codes. As an illustrative example of the history and content of reasons for the centralization of governance, the interaction between the Federal Center and the Republic of Bashkortostan is considered, and the article focuses on analysis of the two main reasons for centralization.

It is alleged that in Russia the “pendulum” will not change direction from centralization to decentralization any time soon. However, in order to mitigate the negative consequences of excessive centralization and prevent spontaneous events, some measures are proposed to reduce excessive centralization and develop federalism. In particular, it is necessary to change the system of professional and additional professional education of civil servants, as well as to reduce the transaction costs of governance by redistributing a number of public administration functions between the Center and the Regions, and introducing some elements of the single-channel budgeting system used in China in 1980–1993.

Keywords: public administration, federalism, unitarianism, unitary state, centralization, decentralization, institutions, path dependence, Russia, Russian Federation.

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Introduction

Modern Russia, according to the constitution, is called a Federation, although many real federations do not include this word in the official name of the state. At the same time, traditionally, Russia remains a unitary state rather than a federal one. If we take the age-old historical horizon, it can be seen that the periods of decentralization and approximation to the theoretical model of federalism coincide with periods of economic crises and political easing of the central government. And the periods of economic growth and political stabilization for some reason coincide with trends towards centralization of state administration.

By historical standards, in the short period after the collapse of the USSR, the Russian Federation experienced dramatic liberal economic reforms. The very concept of liberalism includes the idea of imminent decentralization of public administration and development of local self-government. However, liberal, market-oriented reforms in the economy in 1992–2017 were accompanied by a consistent centralization of state power throughout these years.

In considering this, the question arises: why were the liberal reforms in the Russian economy not accompanied by the liberalization of public administration, i.e., its decentralization?

The problem of the ratio between decentralization and centralization in public administration is not unique to Russia, which has built a market economy, although there are many questions to its quality. The most acute issues were in Canada, Spain, and Great Britain (Milne, 2005), occasionally exacerbated to the need to hold referendums on secession (referendums in 1980 and 1995 in the province of Quebec on separation from Canada, referendum in Scotland in 2014 on secession from Britain, referendum in Catalonia in 2017 on separation from Spain, etc.). At the same time, in Europe, within the framework of the emergence of the European Union, there were processes of centralization, i.e., the voluntary restriction of national sovereignty of countries in favor of European institutions. After Brexit, we know that centralization can be replaced by partial decentralization.

Not only have the practical issues of this problem been fairly well studied in the literature, the theory has too. The theory of public choice, the theory of public economics and the theory of fiscal federalism, considering the assignment of public responsibilities between the levels of governance from the economic point of view, were developed by the classics of these theories: Arrow (1971), Musgrave (1959), Oates (1972), Samuelson (1954), Stiglitz (1977), Buchanan (1968), etc. The theory of federalism and its development in the practice of governance is generalized on the basis of 21 countries' experience (with an accent on public finance management) in the fundamental collective monography (Ter-Minassian, 1997).

Economic criteria of decentralization were developed by Bahl (1999a), and political aspects of this problem by Treisman (2007). A great contribution to the development of the theory of federalism was made by the concept of "Market-Preserving Federalism" by Weingast (1995).

Intense discussions were sparked around the original Chinese model of economic federalism, in which the administrative relations during the reforms of the 1980s were built to implement a concept known in Russia as the "single-channel

budget system” in the works of R.M. Bird, R.D. Ebel and C.I. Wallich (1995), R. Coase and N. Wang (2012), R.W. Bahl (1999b), and D.C. North (2005). In this article we mention the issues of asymmetric / symmetrical federalism in the Russian Federation discussed in the works of C.D. Tarlton (1965), D. Milne (2005), J. Martinez-Vazquez (2002) and S. Valentey (1996).

The ways of developing federalism and constructing the modern Russian architecture of intergovernmental relations in Russia were developed by J. Martinez-Vazquez and J. Boex (1998, 2001), L. Polishchuk (1998), A. Lavrov, D. Sutherland and J. Litwack (2001). Critical comprehension of the course and results of administrative and fiscal reforms of 2000–2005 in Russia can be found in the works I.U. Zulkarnay (2003, 2004, 2006), R.L. Watts (2007), A. Yushkov, L. Savulkin and N. Oding (2017).

The article is devoted to an attempt to reveal the causes of centralization tendency in Russia and, based on this understanding, an attempt to predict the development of relations between the Center and the regions in the future. The research period covers mostly 1988–2017 with the added use of some facts from 1918, and the structure of the article reflects the main stages in the development of the institutions of interaction between the Center and the regions.

The main hypothesis of the article is that the tendency towards centralization of public administration against the backdrop of liberal reforms after the collapse of the USSR was inevitable in Russia because the state apparatus inherited from the Soviet period, the so-called command-administrative style of governance, is unable or unwilling to apply (fears consequences), or simply does not know the modern theories of the public sector of the economy and economic federalism.

The preconditions in designing Center-regions relations in contemporary Russia

The development of relations between the Center and the regions in Russia in the last quarter of a century has undoubtedly been influenced by the institutions of public administration that were established during the Soviet era. Those, in turn, are characterized by high centralization of public administration throughout the vertical of the USSR and by the tradition to declare democratic institutions in their de facto absence, which is deeply rooted in the minds and hearts of officials.

If at the dawn of Soviet power the word “union” in the name of the Union of Soviet Socialist Republics (USSR) and the word “federation” in the name of the Russian Soviet Federative Republic (RSFSR) had some meaningful content, then very soon, due to the centralization of public administration, a rigid vertical of power and the concentration of governance in the hands of the Communist Party, these words turned into formal declarations that did not have significant meaning from the point of view of public administration.

Also, formally, for example, in Article 79 of the 1978 Constitution of the RSFSR, ethnic republics were called “republics”, “states” within the RSFSR. In addition, their name included an adjective “autonomous” (for example, the Bashkir Autonomous Soviet Socialist Republic (BASSR)), suggesting that these “republics-states” could autonomously solve some issues of public administration while other regions (*oblast* and *krai*) did not have such freedom of decision-making. But in

fact, the “republics” had the same small opportunities to manage the economy and social development of their territories as the *oblast* and *krai* of the RSFSR had.

Such a de facto reduction of autonomous republics to administrative entities, such as *oblast* and *krai*, was provided by the following circumstances. Firstly, the 1978 Constitution of the RSFSR did not assign the responsibilities separately to the Center and the republics, but simply listed the responsibilities that were under the federation. Thus, it turned out that all the remaining functions of public administration belonged equally to both republics and regions (*oblast* and *krai*).

Secondly, the actual administrative governance in the autonomous republics was carried out by the regional committee of the Communist Party, which carried out the decisions of higher party bodies. The very name “regional committee” (*oblastnoy komitet*) in the republics unequivocally showed the formality of autonomy, that from the point of view of the center the republics were the same administrative entities as *oblast*. Thirdly, as a consequence of the first and the second, the constitution and all regional laws were supposed to “clarify” the constitution of the RSFSR and the corresponding higher laws, turning into a compilation of the first.

Fourthly, item 16 of Article 72 of the RF Constitution of 1978 referred to the jurisdiction of the RSFSR as “the solution of other issues of national importance”, without giving a criterion as to who will determine whether a particular competence has RSFSR or regional significance.

These traditions of the formal declaration of “federalism”, with its simultaneous deletion by the provisions of the document itself, were laid down in the beginning in the constitution of the RSFSR of 1918, where, after listing issues under the jurisdiction of the RSFSR, Article 50 stated that, apart from them, the Center's competencies are “all questions that they recognize subject to their resolution”. In addition, Article 61 of that Constitution obliged the administrative bodies (ministries) of the subjects of the federation “to enforce all decisions of the relevant higher bodies of Soviet power”.

A separate issue that goes beyond the scope of this article is the question as to why the Bolsheviks called the country a “federation”, but for our purposes it is important to accept this fact and combine it with the understanding that strategically they saw Russia as a highly centralized, unitary state. Thus, in participating in discussions about the 1918 Constitution of the RSFSR, Joseph Stalin ((1918), p. 73) stated that “federalism is a transitional stage towards socialist unitarism”.

Spontaneous decentralization in Russia and attempts to return to the principles of federalism in the 1990s

In 1992, the independent Russian federation faced the same problem of building administrative relations between the center and the regions, which, against the backdrop of the economic crisis, contributed to the disintegration of the USSR. In the 1990s not only the union republics of the USSR, but also the autonomous republics of the RSFSR, in their majority adopted declarations on state sovereignty, in which they proclaimed, in fact, limited sovereignty, outlining rights that they would like to retain.

For example, the Declaration on the State Sovereignty of the BASSR (1990), adopted after the nationwide discussion by the Parliament on October 11, 1990, declared Bashkortostan a subject of the “renewed Russian Federation”, but also stated that “Land, natural resources, other resources in the territory of the Bashkir Soviet Socialist Republic, as well as the entire economic and scientific potential are the exclusive property of its multinational people”.

Hence it followed that all the legislation regulating this property is in the jurisdiction of Bashkortostan and not Russia. In addition, Article 2 of the declaration stated that Bashkortostan “retains all the completeness of state power throughout the territory except the responsibilities *voluntarily transferred* [italic is mine – I.Z.] to the USSR and the RSFSR”. Similar statements were made by other republics of the RSFSR, with some variations: for example, the declaration of Checheno-Ingushetia listed water resources and airspace alongside the property of autonomy for land and subsoil. Tatarstan proclaimed its property on land and subsoil but didn’t mention the economic potential (enterprises) that Bashkortostan did.

Such broad powers of the subjects of the federation are a common phenomenon in federations. So, in Canada, unlike other developed countries, most of the land, subsoil, and forests are state property (which brings it closer to Russia) and only a small part is private. At the same time, for example, 77% of forests are state-owned by the provinces, and only 16% are state-owned by the federation (the remaining 7% is privately owned) (Islakayeva, 2017). There are similar proportions with state ownership of land and subsoil. For comparison, in Russia, so far all of its forests are federal property.

The Russian government, in the face of such ambitions of ethnic republics who wanted to see the country not as a fake Soviet federation, but as a real Federation like the USA or Canada, faced the serious problem of state building: either to conduct serious decentralization without losing the integrity of the country, or to start the process of centralization.

Federal politicians and the federal bureaucracy of Russia, formed under the conditions of the Soviet administrative command system with strict vertical reporting, objectively had not and could not have governance experience in a decentralized country. In particular, it was difficult for them to interact with the indigenous peoples of 20 ethnic republics which had completely different mentalities, histories of relations with Russia, socio-economic development and demanded different sizes of autonomy for themselves. The desire of these peoples to live as they wanted was perceived by the Center as nationalism and separatism.

Were there any grounds for believing that ethnic republics wanted to secede from Russia, as they were accused of by politicians from the Center? Certainly, in the 1990's, and in the early 21st century, there were no such grounds. Yes, during the existence of the USSR, a number of autonomous republics of the Russian Federation wanted to acquire the status of union republics, which meant withdrawal from the Russian Federation. But at the same time, these republics thought of themselves as members of a federation of a higher rank, the USSR, where they simply had more powers in the economic field and in the field of protecting their ethnic identity. In the economic sphere and politically they did

not want to be outside the large territorial community – the USSR, seeing the advantages of membership in a large federal country in comparison with complete independence.

In the most severe form, independence was declared by Tatarstan and Checheno-Ingushetia, which, unlike Bashkortostan and other republics, did not initially declare themselves subjects of the RSFSR and the USSR. But they also announced their intention to sign a federal treaty, and thus remain a subject of the federation. The condition for signing was, obviously, an indication in the federal treaty that the subjects of the federation had the ownership to themselves: their land, subsoil and resources.

Despite the absence of objective grounds for the separatism of the subjects of the Federation, the fear of the supposedly existent threat of the country's disintegration led to a victory on the road to centralization. The real reasons were the above mentioned lack of management, governance skills for large decentralized systems, and delegation of authority from the Center to regions. There were also political reasons and the corruption interests of some federal officials in choosing centralization of power but they go beyond the scope of this article.

Initially, in the first months of 1992, the Administration of President Yeltsin tried to avoid the term “Federal Treaty” itself. The Center suggested that the regions sign the so-called Agreement on the Delimitation of Responsibilities between the federal authorities of the Russian Federation and the authorities of the republics, territories, and regions within the Russian Federation (hereinafter the Agreement). According to this Agreement, ethnic republics were equal in expenditure responsibilities and revenue assignments to other administrative units that did not carry the character of the state. Regions, especially ethnic republics, insisted on a Federative Treaty with different powers for each subject of the federation, in accordance with their declarations of sovereignty.

In the end, the federal treaty was signed in a compromised form. First of all, it did not become a truly Federative Treaty, i.e., a treaty on the creation of a federation that would be concluded by members of the federation that would delegate some of their sovereign powers to the Center. It was an agreement between the Center and the regions, which recognized the original existence of the federation and, accordingly, the existence of the sovereignty of the whole country, and not the sovereignty of the subjects of the federation. Thus, the Russian Federation has become a constitutional federation, not a contractual one, such as the United States and the Swiss Confederation.

One compromise in favor of the regions was that the Federal Treaty consisted, in fact, of three treaties, with three groups of subjects of the federation: 1) ethnic republics that were called “sovereign republics” in the treaty; and 2) *oblast* and *krai* – the main administrative units of the Russian Federation; *avtonomnyy okrug* (Federal Treaty, 1992).

Ethnic republics had more powers in treaties than *oblast* and *krai*. However, this largely unified distribution of powers did not suit some of the republics. Nineteen ethnic republics (the Republic of Adygea, the Udmurt Republic, etc.) signed the treaty, and two – the Chechen-Ingush Republic and the Republic of Tatarstan did not sign it, mainly because the assignment of responsibilities did not suit them. That

division of powers also did not suit the Republic of Bashkortostan, but it signed the Federal Treaty, with the simultaneous signing by both parties of an additional annex, in which, the Federation agreed to leave two groups of rights to Bashkortostan: a) land, subsoil and natural resources ownership; and b) the right to determine the general principles of taxation and charges to the budget (Annex, 1992).

Thus, the Russian Federation became an asymmetric federation: different groups of subjects of the federation had different levels of powers, and in addition the Republic of Bashkortostan had special rights at the same level that the provinces of Canada have (in this country the provinces not only have state ownership of land and mineral resources, but also their own tax systems with the right to impose taxes).

Around the very concept of “asymmetric federation”, before and after the signing of the Federative Treaty legal disputes flared between the federal center and the regions. So, the regions appealed to the constitutions of foreign countries and their practice, to the fact that all foreign federations are *de jure* and *de facto* asymmetric.

Representatives of the Center argued that the asymmetry of the federation violated the “equality” of the regions, thereby demonstrating the legacy of Soviet thinking. It should be noted that there was practically no discussion abroad about the very principle of the asymmetry of federations and it still does not exist. For example, C.D. Tarlton (1965) stated that, even if there are no signs of asymmetry of the federation in the constitutions of the countries, in fact the intergovernmental relations that the center with the regions generates are different due to objective cultural, economic, social and political differences between subjects of the federation. The work of J. Martinez-Vazquez (2002), which substantiates the appropriateness of symmetrical relations in the Russian Federation, appeared after these events, and only because Martinez-Vazquez himself headed a group of American advisers to the Russian leadership, who in the mid-1990s developed the budgetary reform of 2000–2005.

In addition, it is important to note that all three treaties of which the Federal Treaty was part were essentially agreements on the division of powers within the framework of the existing state, and not by the treaties establishing the federation. This laid the legal foundation for further evolutionary state-building, during which, for a quarter of a century, the signs of federal relations were significantly weakened.

Thus, it was assumed that the Federal Treaty would be fully incorporated into the new Constitution of the Russian Federation, but legally it was not fixed. As a result, when the new Constitution of the Russian Federation was adopted in December 1993, the Federative Treaty did not feature in it, and instead, a section on the federal structure appeared in the Constitution, which divided the powers between the Center and the regions evenly, making no distinction between ethnic republics and *oblast* and *krai*. Thus, the Constitution in the scope of expenditure responsibilities and revenue assignments equated ethnic republics with other types of subjects of the federation, although it formally named the former “republics”, i.e. states with a republican form of government (Constitution of the Russian Federation, 1993).

The Republic of Bashkortostan, which previously signed the Federal Treaty with an annex that stipulated its ownership to land and resources, was unilaterally deprived of these rights by the new Constitution. The federation itself became symmetrical, because all regions had the same scope of rights, which was not clearly defined. So, in the current constitution, two areas of authority are listed: the exclusive authority of the Center and the joint authority of the center with the regions. The sphere of “joint authority” is de facto regulated by the center in view of Items 2 and 3 of Article 76: thus, according to Item 2, the Federation adopts laws on the sphere of joint legislation, and the subject of the federation adopts its normative act in accordance with this law; paragraph 3 of this article specifies the procedure of “joint authority”: the Federation sends draft laws to the regions and then takes into account or does not accept the wishes of the regions. Outside of exclusive and joint authority “the regions possess all the fullness of state power” according to Article 73.

However, the first two spheres list such a wide scope of powers, that practically nothing remains for the sphere of exclusive authority of the regions. For example, at present, federal legislation penetrates right up to local self-government at the level of settlements, determining their tax revenues and regulating inter-governmental fiscal relations of municipal districts and settlements.

In addition to the struggle over the Federal Treaty and the Constitution, in 1992–1993 there was the struggle between the center and the regions around intergovernmental fiscal relations. The ethnic republics persistently proposed a so-called single-channel fiscal system (the republics collect taxes on their territory and deduct the Center’s share of all revenues or the absolute amount fixed in bilateral agreements with the Center). The federal center in active form rejected the single-channel system and since 1993–1994 has forced the regions to return to the enrollment of taxes in the federal budget according to the tax sharing set by the federation. R.M. Bird, R.D. Ebel and C.I. Wallich (1995, p. 385) also criticized the single-channel budget system, believing that it undermines the center's ability to maintain macroeconomic stability; in particular, they negatively mentioned Bashkortostan: “...This is similar to the system Bashkiria negotiated with the federal government in Russia. The fiscal contracts were negotiated with most of China's better-off provinces, encouraging them to build up a tax base and reap the marginal benefits. ... The fixed nominal contracts kept federal revenues constant, regardless of economic boom or bust, and undermined the use of fiscal policy for macroeconomic stabilization”. However, as we know, in the next quarter century macroeconomic stability in China was not undermined, the country has developed steadily. The Chinese model was cited as an example of “Market-Preserving Federalism” by B.R. Weingast (1995), and was positively evaluated by D.C. North (2005, p. 19), verbatim: “The central government has deeded, not necessarily deliberately but nevertheless deeded, autonomy to the local governments”.

In connection with the adoption of the new Constitution of the Russian Federation in December 1993, a legal collision arose, in view of the fact that the ethnic republics had previously proclaimed declarations of sovereignty, many of them had adopted their constitutions in which the principle that sovereignty originally belonged to them was postulated and they already delegated part of its powers to

the Federal Center. Proceeding from this collision, many regions demanded bilateral contracts from the Center, a bit like those used in China, in which intergovernmental fiscal relations were defined. These contracts were adopted every year, and not for 5 years, as in China, therefore their effectiveness as incentives for the economic development of the regions were lower.

Depending on the bargaining power, the regions were able to negotiate for themselves greater or lesser tax sharing rates. For example, the general rule for the regions was the tax sharing of VAT between the federal and regional budgets in the ratio of 75:25 from 1994 to the 1st quarter of 1999, then the regional share decreased to 15%, and from 2001 nothing was sent to the regions. But according to the bilateral treaties adopted by the Republic of Bashkortostan with the Center in those years, 50% of VAT revenues remained in the republic (Law of the RB, 1996).

In addition, such agreements and even laws of the republics on the budget for the next year were drawn up on the basis of the concept that the region delegates authority to the Center. For example, Article 7 of the Bashkortostan law on the budget for 1997 said: “For the implementation of *delegated* [italic is mine – IZ] authorities to the Russian Federation and the financing of federal socio-economic programs for 1997 to contribute profit tax revenues with 13 percent rate and 50 percent of VAT revenues to the federal budget” (Law of the RB, 1996).

Against this background, in the middle of 1996–1997 budget reform was being prepared, aimed at the strict unification of inter-governmental fiscal relations between the regions and the Center. Since the Russian leadership did not have knowledge of theories of the public sector of the economy, it accepted the offer of assistance from a group of scholars from Georgia State University, headed by Martinez-Vazquez, closely associated with the World Bank. This group of scientists, lived in Moscow during these years, worked closely with the RF Ministry of Finance and, in particular, prepared a “Russian team” of reformers (Lavrov, Sutherland, Litwack, 2001; De Silva, Kuryandinskaya, Andreeva, Golovanova, 2009).

In 1998, the Budget Code of the Russian Federation was adopted, replacing many laws and excluding the existence of bilateral treaties with the regions. According to the federal law, this code was to enter into force on January 1, 2000 (already at the next president). In addition, the Tax Code of the Russian Federation was drafted, the first part of which entered into force in 1999, and the second in 2001.

American advisers who developed the architecture of the intergovernmental fiscal relations, the conditions of which we now live up to, were surprised by what happened as a result of their consulting work. So, Martinez-Vazquez and Boex wrote in 2001: “Putin has pushed the pendulum of fiscal federalism further in the direction of centralization, and only time will tell how far the pendulum will swing”. (Martinez-Vazquez, Boex, 2001, p. 96). The matter is that there were elements of both centralization (for putting things in order after the mess in the 1990s), and elements of decentralization, and the development of local self-government in the theoretical developments and recommendations of foreign experts. But as a result, those proposals were mainly chosen by the Russian government that spoke in favor of centralization.

The victory of the trend towards the centralization of Russia and its economic consequences

As early as 2000, after the elections, “unleashing the hands of change”, a process was launched to bring the constitutions of the seven ethnic republics into line with the Constitution of the Russian Federation.

In the course of the Center for the Forcing of Ethnic Republics, which began in mid-2000, to bring the constitutions in line with the Constitution of the Russian Federation, almost all the republics, after fierce resistance, surrendered almost all of their positions.

For example, the Parliament of Bashkortostan made changes to the constitution several times in a year and a half, each time announcing that it was brought into line with the federal one. But each time the Constitutional Court of the Russian Federation did not agree with this, and the republic took position after the position, until in December 2002, at last, this process was completed by the consent of the Center.

All of the republics were forced to withdraw from their constitutions' provisions on the existence of their sovereignty and on joining the federation on the basis of a treaty, on delegation of authority from the bottom up. The mention of the bilateral treaty in the Constitution was defended only by the Republic of Tatarstan, and then in a compromise form (mentioning the treaty as the basis for membership in the Federation along with the Constitution of the Russian Federation) (Constitution of RT, 1992).

As a consequence, all regional legislation was revised, as required by the federal constitution, “in compliance” with federal laws, which meant the abolition of regional laws in their existing form and the adoption of new laws that were mainly compiled from federal law. For example, in the Republic of Bashkortostan in the 1990s a system of so-called “state local governance” was built, which operated in cities and rural districts, when local self-government existed only at the level of settlements. Due to bringing things “in line”, the republic formally created local self-government bodies in all administrative units, in the absence of the population's skills of self-organization in large cities.

Almost simultaneously with the campaign to bring the constitutions in line, the reform of the composition of the Federation Council, the lower chamber of the Parliament, formed from the representatives of the subjects of the federation, was carried out. Until December 2001, each subject of the federation was represented by the head of the executive power (the governor of the *oblast* or the president of the republic), and the chairman of the parliament of the subject of the federation). The first persons of the subjects of the federation, many of whom were political heavyweights, created many problems for the Federal Center when bills passed through the Federation Council.

To stop this resistance, the Center unilaterally introduced a new rule, according to which the subjects of the federation were represented in the Federation Council not by the first persons of the regions, but by the representatives appointed by them. Certainly, the representative of the governor and the representative of the head of the regional parliament were not able to defend the interests of the

subjects of the federation as effectively as the very first persons of the subject of the federation – the governor of the region (the president of the republic) and the chairman of the regional parliament.

On May 13, 2000, a presidential decree was signed on the creation of seven so-called federal districts in the country. A special representative of the President was appointed to each district, who was actually of a higher official position than the governors of *oblast* and *krai*, and the presidents of the republics. It administratively postponed the subjects of the federation from the Center.

In December 2004, the federal legislation adopted a new procedure for the election of heads of subjects of the Russian Federation. Prior to that, the governors of the regions and the presidents of the republics were elected by population of the subject of the federation, as a result of an election campaign with several candidates. Since 2005, the head of the subject of the federation has been approved by the parliament of the region, when candidates were chosen and suggested by the President of the Russian Federation. In fact, the elections were replaced with the appointment of regional leaders. It is noteworthy that the decision concerning not the whole country, but a separate region, was adopted by federal legislation, on the basis of the constitution adopted in 1993.

The provisions of the Constitution of the Russian Federation postulating the supremacy of federal legislation over legislation by the subject of the federation allowed the Constitutional Court of the Russian Federation on November 16, 2004 to recognize the right of the body of the federal legislature to establish a graphic basis for the state languages of regions. For example, based on this, federal legislation prohibited Tatarstan from translating the Tatar script from Cyrillic to Latin.

In intergovernmental fiscal relations, the policy of strengthening centralization also continued. In 2000, the Budget Code of the Russian Federation came into effect, and in 2001 – the Tax Code that abolished a huge number of laws. The practice of concluding bilateral treaties of the Center with ethnic republics has ceased. Since 2001, there has been established uniform tax sharing for all subjects of the federation for transferring taxes to regional budgets (with some transition period).

In addition, for all of the regions, more and more stringent fiscal conditions were established. All through the 1990s the share of VAT in regional budgets was reduced; to zero by 2001. This easily collected tax is still fully assigned to the federal budget. Since 2004, amendments were made to the tax and budget code and the Center abolished sales tax, which had come fully into the regional and local budgets. This act further worsened local tax revenues.

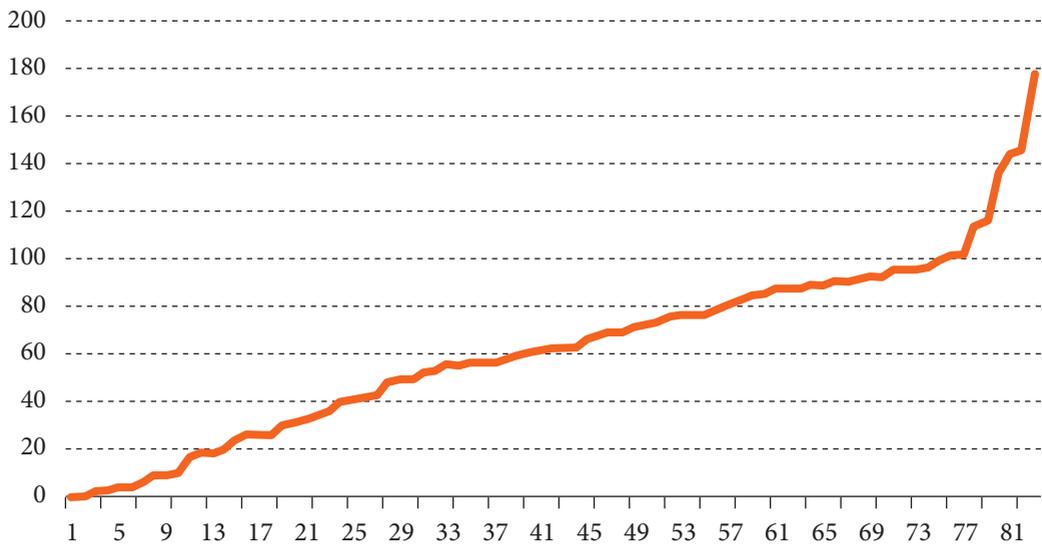
Consecutive centralization of revenues has led to an increase in the federal share of the consolidated Russian budget from less than half to 65%. The dramatic situation in the regions was realized by the country's leadership. Thus, Valentina Matvienko, the chairman of the Federation Council said in 2016: "We believe that it is necessary to change the concept of intergovernmental fiscal relations. To date, 35% of all revenues remain in the region, and 65% go to the federal budget. It is not right. ... the leaders of the regions lose their motivation for development". However, awareness of this problem has not yet led to a change in legislation towards the decentralization of tax sources (Feinberg, 2016).

The side effect of the policy of centralization of both tax sources and expenditure powers was that the Center took on the responsibility of highly equalizing the budgetary provision and undermined the budgetary incentives for the economic development of the regions.

At the same time, the Center, using the constitutional leeway of federal jurisdiction, compelled the regions to incur increasingly high costs. Thus, the Center ordered the heads of regions to raise the average wage. They were forced to do this, being actually appointed from the center and not taking into account the level of economic development of the region. As a result, the regions began to increase their debt, borrowing money from both the federal budget and banks (Zubarevich, 2016). The debt of some regions now exceeds their annual tax and non-tax revenues (Fig. 1).

Figure 1

**Share of debt in tax and non-tax revenues
of Russian regions in 2016, %**



Source: Rating of regions by level of debt load, 2016.

The existing dynamics of changing relations between the Center and the regions is determined not only by the legacy of Soviet thinking, but also by the lack of knowledge of modern public administration theories at the federal and regional levels by Russian public servants. Thus, the theory of public economics provides clear criteria for the allocation of expenditure responsibilities and revenue assignment among levels of governance, classifying all economic services into pure public goods, mixed goods, local goods and private goods. The same theory provides economic justification for the provision by the state and local authorities on the part of private goods and equips the architects of state building with economic criteria (in particular, the calculation of external economic

effects), to what level should be attributed to certain private services such as education and health care and in what size they should be provided by state (Musgrave, 1959; Oates, 1972).

From the point of view of these criteria, it is puzzling why in Russia the federal law still regulates such issues as forest use and reforestation, which are obviously regional and local responsibilities in nature, why the federal legislator intervened in the road sector of regional and local significance, abolishing road budget funds in regional budgets in 2005 and reintroducing them in 2012, and why it regulates the provision of secondary education by closing schools in villages with a small number of children across Russia in the course of the federal program to optimize budget expenditures.

In his works, W.E. Oates (1972) mathematically (!) proved that it is economically inefficient to provide local public services, such as public safety services, at the same quantitative level in two municipalities with different consumer preferences. From the standpoint of Oates' theory of federalism, it is completely unclear why the federal legislator passed the law, in detail, covering 130 pages, determining the system of local self-government, while the federal executive authority regulations determine the provision of local public services of regional and even local significance.

Conclusions

In relations between the Center and the regions, we now see interests that are not harmonized: the vertical relations of the state have been transformed into a system of subordination of the regions to the Center, masked by the word "Federalism".

From the analysis carried out in this article, we see two bound reasons for what has happened. The first is the ingrained tradition of Russian bureaucracy for centralization, its reproduction of the Soviet model of public administration. Officials are accustomed to "taking into account and taking control" from Soviet times. The second is the habit of the population in regards to centralized management. Suffice to say that on every "direct line" the President of the Russian Federation has with the people, people do not hesitate to ask the head of state to solve local issues. These habits were definitely formed in the Soviet period, when for generations there was a rigid vertical of power controlled by the Communist Party, whose functionaries actually ruled the country and regions without being elected by the people. Actually, all of these are the well-known effects of path dependence (North, 1990, pp. 112–117).

The second reason is the attitude to the concepts of "federalism", "republic", and "subject of the federation" that have developed in society as beautiful (or habitual?) words that do not carry any meaningful value.

The third reason is the low academic education of the bulk of those working in bureaucracy – their lack of knowledge of the theory of public administration, the theory of the public economics and the theory of economic federalism. Also, the Highest Russian Representative bodies and the elected authorities do not use these theories when talking of the allocation of responsibilities, but appeal to "common sense" and "balance of interests", with the understanding that in regards to the latter there is always a contradiction between the center and the regions,

and there must be a balance in the sense of mutual concessions. This way of reasoning is typical not only for federal, but also for regional civil servants, who build a power vertical within the regions.

However, this is completely wrong from the point of view of the economics of the public sector. For example, the reassignment of the public security function responsibility from the federal to the regional level would not be an act of concession to the federal center, where it would lose something in favor of the regions, but it would be an act of increasing the welfare of all of the regions through more efficient delivery of these local goods, which is possible at the local level. Accordingly, the welfare of the whole country would increase, because it would be an act that is economically beneficial to both the regions and the federal center, unless, of course, the latter cares about the welfare of Russia, and not about something else.

Obviously, the slowdown in the country's economic growth as its centralization grew, which we have observed over the last decade and a half, could be foreseen on the basis of economics of the public sector, which allows us to even quantify the huge losses of efficiency in public administration that arise from such extreme centralization as in Russia.

In the end, centralization led to the economic stagnation of the country, which began as early as 2013 (when the GDP growth rate fell to 1.3%), i.e. before the fall of world oil prices and before the Western sanctions.

According to A.G. Aganbegyan (2017), R.S. Grinberg (2015), M. Movchan (2015), N. Zubarevich, (2016) and other Russian economists, the economic crisis that has begun is protracted, and there are no prospects for an exit from it without institutional and structural economic reforms that should be done. As we know, any protracted economic crisis threatens to turn into a political crisis.

With its approach, with the weakening of the federal center, as happened with the USSR Union Center on the eve of and during *perestroika*, the spontaneous processes of decentralization of power will again come into play and the powers and control over the economy will begin to move to the regions. This revolutionary scenario of decentralization has high risks of at least a partial, and possibly the complete, disintegration of the Russian Federation.

It follows that in order to prevent threats to Russia's integrity and return to economic growth, it is necessary to begin the processes of decentralization of public administration, it is necessary to fill the word "Federation" in the official name of the country with the content consistent with the principles of federalism set forth in the relevant theories. Here it is appropriate to cite China as an example, which started its rapid economic growth in the early 1980s, carrying out administrative and intergovernmental fiscal relations decentralization, while not abandoning the authoritarian political control of the Communist Party (Coase & Wang, 2012).

Proposals

Building a real federalism and conducting effective decentralization is a problem that cannot be solved in 2–3 years, it must be a process that will last for decades if it starts now. The first step should be the training and retraining of civil servants

(Mau, 2011). People occupying public positions must undergo training and pass exams on the knowledge of the theories mentioned in the article, and demonstrate practical skills in examinations such as analyzing game situations. This problem alone is extremely difficult to solve, if only because there are not enough teachers in the country who could train civil servants. In addition, the level of knowledge of our civil servants corresponds not even to “yesterday's day”, it's “the day before yesterday”, because even Western public administration no longer corresponds to technological changes in their own countries (Barabashev, 2016).

After training, and simultaneously with it, it is possible to introduce the elements of the single-channel intergovernmental fiscal system discussed here, which would give impetus to the economic development of the regions, and accordingly, the whole country. The ultimate goal should be to build a federation, like the Canadian federation, because Canada is similar to Russia in terms of climate, overall size, and the size of territories with very low population density.

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