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## Federative relations and Russia space problems

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### **Federative Relations and Russia's Spatial Problem**

The specific features of present-day Russian federalism are rooted in the history of Russia's space formation and arrangement. The Russian model of federalism mirrors the country's development experience in the past and is, at the same time, a response to contemporary challenges. The model embodies the peculiarities of the evolution of Russia's space, its complicated ethno-cultural and economic structure, relations with the external environment. Centralization of power, expansion and development of space, its defense were closely intertwined in the historical perspective. However, the vast areas, the remoteness of the majority of regions from the country's capital, the ethno-cultural originality – all that inescapably entailed that a certain regional autonomy persisted even under most rigid centralized governance.

Today the question arises about the extent to which the established model of federalism is up to the goals of ensuring security of the state, integrity and cohesion of its space on the one hand, and enhancing its economic modernization and raising global competitiveness on the other.

The enormous regional diversity and metropolitan mono-centrism historically established in the Russia make the vertical power structure a natural and comprehensible reaction of the centre to the challenges emerging for the country and the power. Globalization intensifies regional disparities; concentration of state revenues in the centre and their subsequent redistribution in favour of poor regions turn into the main tool to fight potential threats. A symmetric federation in an extremely asymmetric space is viable only under relevant centralization of governance.

In real practice, a symmetric federation perceived in the RF Constitution as equal powers of its constituents in their mutual relations and their relations with the federal centre, remains an unattainable goal. There are regions with specific geopolitical value for the country, and they receive more attention of the federal centre. More developed regions can make better use of chances offered in the framework of the federation and get additional funding for their development. It implies that, under geopolitical and economic differentiation, formal equality of rights does not result in real equality.

In the early 1990s, at the peak of democratization, under critical economic and social conditions, federalism was enrooted in Russia's state governance practice. Economically sound regions gained from the fact that the power of authority was delegated to RF constituent entities, but it dramatically aggravated contrasts between the centre and the periphery. According to estimates made by A.Shevyakov and A.Kiruta, the cost of living index in 1998 (compared to 1991) amounted in Moscow to 207, in the Tyumen Region to 128, whereas in the Republics of Tyva and Ingushetia it dropped to 31, and in the Republic of Marii El to 40.<sup>1</sup> This situation was, however, not the effect of competition but of unequal conditions the federation constituent

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<sup>1</sup> L.Evstigneeva, R.Evstigneev. Russia's Self-Identification and Creation of a New Regional Union. *Voprosy ekonomiki*, 2004, No.10 (in Russian).

entities found themselves in after the break-up of the USSR, in the course of market transformation and economic slump.

Among the economic causes of recentralization of the 2000s, several factors can be named: growth of regional disparities, non-payment crisis, regional protectionism, contradictions on financial and production assets between the centre and the periphery. The country's spatial economic disintegration gathered momentum at the most responsible moment of market transformation. Deep disparities between RF constituent entities in terms of scope of economy, home market capacity and self-development potential started to work against federative relations established after the RF Constitution was adopted in 1993.

The structure of Russian export, with its outspoken dominance of fuel and raw products, pushed to restore centralized governance. Business elites close to authorities strived to get greater license in developing and exporting natural resources. The claim to reinforce the central power was advanced by economically weak RF constituents (national republics, as a rule) in need of financial support from the federal budget. The market transformation of the Russian space contributed to clustering economic life in a small number of regions most attractive for entrepreneurship.

After the power vertical restored, inter-budgetary transfers turned into the main instrument in relations between the federal centre and the regions. However, they most likely aim to neutralize more the eventual political and social effects of growing space divergence than its underlying causes. This is evidenced by great disparities of RF constituents in terms of gross regional product (GRP) growth rates over 2000-2012. Compared to the country average of GRP growth rate of 5.6% during these years, 17% of the federation constituents showed growth rates of less than 4% and 14% of them of more than 7%.<sup>2</sup> In these years, as a result of market transformation, a group of lagging northern federation constituents emerged - the Republic of Karelia, the Kamchatka, Magadan and Murmansk Regions, the Republic of Khakassia, along with a group of regions in the European part of Russia - the Ivanovo, Kostroma, Kirov and Pskov Regions. Meanwhile, efforts failed to markedly reduce interregional disparities in GRP per capita both at country level and the level of federal districts.

As shown in the project research entitled "Toward a New Model of Russian Federalism: the regional perspective",<sup>3</sup> evident demand for federalism (in its classical interpretation) is still non-existent in the centre and in the regions. This is due to the raw oriented type of Russian economy, with 10 to 12 RF constituents ensuring approximately 80% of the country's export revenues. And here is the downside of the situation: many RF constituents hardly produce anything for other regions and practically nothing for the world. The biggest exporters of the country integrate the top decile of regions, which are donors for the Russian budget and receive no subsidies from the federal "pot" to equalize their fiscal capacity. These are: Moscow, Saint Petersburg; the Moscow, Leningrad, Sakhalin, Samara, Tyumen Regions; the Nenets, Khanty-Mansi and Yamalo-Nents Autonomous Areas; the Republic of Tatarstan. The practice of large-scale "additional nourishing" of the majority of regions from the federal budget does not find today unanimous support by society. A series of economically robust regions voice their demand

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<sup>2</sup> RF Goskomstat data – [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/ru/statistics/accounts](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts).

<sup>3</sup> Toward a New Model of Russian Federalism: the regional perspective. The Gorbachev Foundation. Ed. by A.Zakharov, O.Zdravomyslova, A.Ryabov. Ves Mir Publishing House. Moscow, 2013 (in Russian).

to have their interests taken into account, in particular, they wish their regional share in the volume of taxes and levies raised within their federation constituent to be lifted.<sup>4</sup>

Apart from the enormous inter-budgetary redistribution volume and the growing costs of security and image-building projects, substantial interregional disparities in the demographic dynamics and labour resources supply are important factors, which contribute to centralization of power. The waves of population's interregional migration and the inflow of labour migrants from the CIS countries create problems that can be tackled only by the federal centre (like job creation, regulation of migration policy, ensuring migrants' and local residents' rights, policy related to single-industry cities). The same refers to the effect of the backward condition of infrastructure which needs huge public investment for its development.

In other words, the model of Russian federalism with its pronounced vertical power structure stands, to a certain extent, in conformity with the development level of Russian economy, its spatial structure and international specialization. Implementing a more democratic model of federative relations (with regard to the equality of power levels), without relevant technological and structural shifts in the economy of RF constituents, can produce more problems than positive effects.

To make federalism - as a two-tier system of power - a real working instrument in Russia, all federation constituents should be capable to ensure at least three-quarters of their budget revenues. Having in view present-day economic and export structures, this seems to be not realistic, in my understanding. A competitive federation can surge in Russia only as a result of technological and structural modernization of RF constituents' economies; on this basis a new integration of the country's regions and, simultaneously, integration into the global economy and the economy of Eurasian integration associations will take place.

In the meantime, it does not exclude the need to search for an optimal internal arrangement and a balance in centre-regional relations. Politicians and experts favouring even tighter centralization of power and a transition to gubernatorial (administrative-territorial) structure of Russia find their opponents among those who advocate for gradual evolution of federal relations.

In my opinion, Russia has no other track in store but to gradually develop federalism. The acute 2009 crisis in Russia and subsequent economic and political events encouraged the federal centre to partially liberalize the country's political system. As for centre-regional relations, most essential was the return to electing the regional heads. Regional financial capacities were expanded: regional road funds were set up, tax compliance at the place of production was broadened. At present, the legal base for competencies redistribution between the federation, its constituents and local authorities is being designed. The new law will allow the President and the Government to hand down federal competences to RF constituents. However, this sort of devolution from above, without supporting the regions with corresponding financial resources, can provoke further growth of regions' and municipalities' debts (which already reached 3% of the country's GDP<sup>5</sup>).

The trend to delegate additional powers to RF constituents is coupled with individualization of the centre's approach to the development of certain Russian regions and

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<sup>4</sup> E.Putilov. Moscow is Far Away. Profile, 13.02.2014, p. 24-27 (in Russian).

<sup>5</sup> I.Grigoryeva. The May Debts. RBC daily, 14.04.2014 (in Russian).

micro-regions. In this context, the Far East, North Caucasian republics, the Arctic regions, the newly integrated Republic of Crimea, the Kaliningrad Region are meant. For the sake of their development special zones, development corporations, federal districts are set up; in the case of the Far East and Crimea special ministries invested with broad economic competences have been created. A similar ministry is to be set up for the North Caucasian Federal District. Their principal target is to coordinate sectoral agencies' piecemeal efforts to develop related territories. Forming this kind of institutions testifies that there is need for adjusting the power vertical, which is not equal to expectations from the point of view of the development perspective of Russia's space. But this is an adjustment, which falls into the framework of the established power paradigm.

The fact that the centre assumes the responsibility to resolve the task of economic arrangement of the country's space, but does not particularly consult the federation constituents on the subject, is a serious flaw of the modern model of federative relations. It narrows the social fundament of the country's modernization. Russian experience evidences that modernization from above ends somewhere halfway (modernization disrapture, according to A.Ryabov).<sup>6</sup> Therefore, if this goal is really set, the political system, including the federative model, should be modernized and gradually, without haste adjusted to modern challenges posed by modernization.

In my view, to consistently move toward qualitative changes of the Russian space, shifts in the technological foundation of regional economy, its higher profitability, joint efforts of central, regional, local authorities, business and, certainly, local communities are needed. The goal of the central authorities is to organize their partnership making use of political, economic and social institutions. Delegating functions and transferring resources from the centre to the regions and municipalities should be smooth but targeted – through small and middle-sized business development, growth of non-resource economy, expansion of road network, by enhancing society's political culture, competition, development of the financial base of local self-governance, creating regional development agencies, etc. It is necessary to create conditions for territorial sociums to design development concepts of their territories within the federation system and – more widely – in the system of international economic relations. In this sense, high-degree centralization of power, inevitable nowadays, should be associated with setting up political conditions to realize regional and local initiatives, widen the interaction of RF constituents and municipal structures in order to increase the complementarity of regional economies and more fully use the benefits of neighbourhood and integration of regional markets in the framework of established development conceptions.

The integration activity of regional and local authorities and communities remains obviously insufficient. Among the few examples of this kind of activity that of the Association of Innovative Regions (with its 12 RF constituent entities as members) should be mentioned. Meanwhile, the synergy of interregional interactions helps increase the home market capacity and mitigate business risks. Progress toward deeper federalization - with up-to-date features of Russian space taken into consideration - means a build-up of horizontal links, more

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<sup>6</sup> A.Ryabov. Split-Leveled Public Changes and the Problem of Modernization Disruption in the Context of Modern Russian Policy. In: Russian Modernization: Reflections on Singularity. Ed. by E.Pain and O.Volkogonova, Kennan Institute. Moscow 2008, Tri Kvadrata Publishing House, p. 92-93 (in Russian).

comprehensive use of the potential of mutual integration of Russian regions and their integration with foreign partners. In this connection, regionalization is perceived as cooperation of regions of different tiers within the confines of the Russian space and within its transboundary format, and, at the same time, as expansion of powers exercised by regions as federation constituents.