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Dress Rehearsal for Russia's Presidential Election

Moscow Tightens Grip on Regional Governors and Budgets

Fabian Burkhardt and Janis Kluge

Fifteen Russian regions and annexed Sevastopol elected new governors on 10 September 2017. The process reveals the Kremlin's response to rising socio-economic tensions in Russia's regions: changing their leaders. A string of older regional bosses rooted within their local elites have been forced to make way for a younger generation of political managers over whom Moscow holds greater sway. The regions' financial independence has been curtailed again too. For the Kremlin, this round of voting represented the final test before the presidential election scheduled for 18 March 2018 – and it passed off largely successfully. But the next presidential term will also see growing uncertainty over Vladimir Putin's successor in the Kremlin. These latest centralisation moves are designed to counter potential political risks ahead of time. But they weaken the incentives for governors to invest in the long-term development of their regions.

The regional and local elections held on 10 September 2017 in eighty of the eighty-three federal subjects (plus annexed Crimea and Sevastopol) included sixteen gubernatorial contests. The results confirm a trend already seen in the 2016 Duma elections: the already ascendant United Russia was able to expand its hold on power, while the Kremlin-loyal "systemic" opposition parties all lost ground. A Just Russia was worst affected, but the far-right LDPR and the Communist Party (CPRF) fared little better. Only in Moscow's municipal elections was a coalition of Yabloko, independents and a number of CPRF candidates led by former Duma deputy Dmitry Gudkov able to achieve a

respectable showing with 262 of 1,502 seats (17.4 percent). In these 125 Moscow districts however, United Russia also increased its share to 77 percent of the seats.

The Presidential Administration under First Deputy Chief of Staff Sergey Kiriyenko treated the sixteen direct gubernatorial races as the principal dress rehearsal for the 2018 presidential election. Overall, candidates supported by the Kremlin gained 75 percent of the votes, although figures who might have represented a credible alternative were excluded from standing.

However, as in the 2016 Duma elections, the average turnout of 40 percent was noticeably down on earlier ballots. The Kremlin

needs strong participation in the 2018 presidential election to secure the regime's legitimacy vis-à-vis the elites and the population. Turnout for presidential elections is traditionally higher than for Duma and regional contests – almost 70 percent in 2008 and 65 percent in 2012 – but also declining. And low turnout at the presidential election would be interpreted as a sign of weakness by potential counterelites.

Centrally Controlled Regional Elections

Governors play a special role in Russia's three-tier administrative system. In the executive power vertical they represent the link between the federal organs and local administrations. Direct elections were abolished in 2004, with governors de facto appointed by the president until 2012. Presidents Putin and Medvedev concentrated on installing regional bosses who would ensure comfortable majorities for United Russia. Successful economic policy was less of a priority. In response to massive protests over electoral fraud following the 2011 Duma elections, however, the Kremlin had direct elections reinstated. But the motivation was not to fulfil the demonstrators' demands for liberalisation. Instead Moscow believed that its appointed governors had lost the ability to guarantee satisfactory election results without resorting to unduly obvious manipulation.

In order to avoid undue surprises, several precautions were taken when gubernatorial elections were reintroduced in 2012. A "municipal filter" requires candidates to obtain the backing of 5 to 10 percent of their region's local councillors. Given that most of these are controlled by the serving governors, this arrangement creates a significant obstacle to opposition candidates. In the 2017 gubernatorial elections the electoral commission turned down about one-third of applicants, with legal challenges getting nowhere. Those accepted included spoiler candidates supported by the regional government. In the run-up to the elections, gover-

nors were made to resign before the end of their official term by order of the presidential administration, allowing President Putin to appoint interim successors who then entered the races with Moscow's explicit backing. They also benefited from high-profile meetings with and visits by President Putin and Prime Minister Medvedev.

The upshot of these moves by the Kremlin has been to severely narrow political competition. All the country's governors, with the exception of Smolensk, Oryol and Irkutsk, now either belong to United Russia or enjoy its support. Since 2012 only one governor has even had to enter a run-off; during a comparable period before elections were abolished in 2004, twenty-nine contests remained undecided in the first round.

Between a Rock and a Hard Place

Moscow's personnel policy has shifted of late. After pursuing a principle of stability until 2016, the Kremlin switched in 2017 to rotation and new blood. The average age of the eleven newcomers in the September 2017 elections was forty-four, ten years younger than the previous cohort of governors.

Yet despite the dearth of political competition, governors are finding themselves squeezed. The recession dragging on since 2014 has heightened rivalry over scarce resources within regional elites, while strikes and social protests are growing. In the first half of 2017 more than 650 protests were reported nationwide, most of them outside Moscow and Saint Petersburg. At the same time Moscow is pressing its governors to reverse the long-term trend of falling turnout and shrinking majorities in federal and regional elections. The centre would also like to see governors desisting from overtly abusing their privileges of office and access to the financial and organisational levers of the state ("administrative resources"), and if possible refraining from open electoral fraud. This leaves little room for political objectives like the long-term development of the regions.

In the meantime the risks associated with the position have grown too: federal control is no longer channelled only through incentives like transfers, but since 2015 increasingly exercised by repressive means. In three of the sixteen regions where elections were held in September, the serving governor had been arrested and forced to resign after investigations by the Federal Security Service FSB. Criminal investigations are currently ongoing against about 2 percent of the regional elite.

For these young technocrats, their quasi-appointment represents something of a baptism of fire. If they can deliver the required results in the upcoming presidential election and survive the socio-economic challenges of coming years, the door to a career in the Presidential Administration or the government will be open. On the other hand, the new personal risks detract from the prestige of the office.

Financial Centralisation

Russia's regions have lost a great deal of their financial independence over the course of recent years. One reason for this is their debt, which has doubled since 2012 after Putin issued a series of decrees drastically increasing public sector pay. The regions – already struggling with the impact of the economic crisis – had to find the required funds from within their budgets, without adequate recompense from the centre. Initially they borrowed at high interest rates from commercial banks, later the finance ministry granted low-interest loans. While this reduced the burden of interest, Moscow tied subsidised loans to conditions that restrict the regions' financial freedoms.

Closer examination of the September 2017 election suggests that Moscow has concentrated on changing the governors of highly indebted regions: in the fifteen regions where gubernatorial elections were held (excluding Sevastopol) the average debt is 73 percent of regional tax revenues, compared to a national average of 43 percent. And according to observers, insuffi-

cient tax revenues played a role in the ouster of the former governor of Kirov Oblast, Nikita Belykh, who was charged by the FSB for corruption in 2016. In August 2017 the finance ministry threatened the governor of North Ossetia–Alania with dismissal over the failure of his borrowing and budget policies.

Yet despite a situation of widespread regional budget strictures, the distribution of tax revenues was readjusted to the detriment of the regions this year. They now receive only a portion of the indirect tax revenues (excise taxes) on the sale of petrol and diesel (hitherto 100 percent). And at the beginning of 2017 the regions' share of taxes on commercial profits, which represent about one-third of their tax revenues, was reduced from 90 to 85 percent. So the regions now receive a smaller share of the returns on their economic policies.

Instead Moscow has increased its centrally controlled transfers. Seventy of the eighty-three Russian federal subjects currently depend on an annual top-up. Annexed Crimea and Sevastopol receive subsidies far exceeding the average, and just thirteen regions are net contributors (compared to twenty-five in 2006). These transfers partially compensate lost tax revenues, but also solidify central control. Funds from Moscow come with political strings attached: sometimes the regions must fulfil formal criteria laid down by the centre; other types of subsidy and transfer function completely without formal guidelines and are granted at will on purely political grounds. So regions with strong interest groups of their own are allocated smaller amounts, while the Kremlin's new favourites receive a financial bonus.

Outlook

The early-autumn test for next year's presidential election passed off to the regime's satisfaction. In March 2018 the Kremlin will hope most of all to increase turnout in order to boost Putin's legitimacy. Possible strategies include simultaneous local referendums or staging prize draws for voters.

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However, Putin's likely re-election on 18 March 2018 – the fourth anniversary of the Crimea annexation – will also mark the start of the struggle over his succession. As the constitution currently stands, Putin is barred from running for re-election in 2024. As soon as his term begins, competing factions in the security organs, politics and state-owned enterprises will be jostling to position their favoured candidates. Putin's fourth term will be more preoccupied than ever with avoiding domestic political risk, so regional politics will play a crucial role: regional budgets remain tight and protests are growing – mostly driven by social grievances and especially outside Moscow and Saint Petersburg. Opposition leader Aleksei Navalny's extensive network of regional campaign teams took observers by surprise in 2017, as did his numerous protest actions in the regions. While the suspended prison term handed down in a political trial will almost certainly preclude a run for president, Navalny will surely remain an important disruptive element.

The Kremlin is pressing ahead with its generational make-over in the federal and regional public administration. This was already apparent in 2016 when Anton Vaino was appointed Chief of Staff of the Presidential Administration and Maksim Oreshkin Minister for Economic Development. Moscow's new cadre policy is designed to further tighten its grip over the regions. While centralisation of power in response to political risk has been a stock response of the Putin era, restricted financial leeway and new personal risks reduce incentives for governors to invest in the long-term development of their regions. While the Kremlin may be seeking to boost vote share and turnout in 2018 with a reform agenda, it is clear that political control will remain more important than the country's economic prospects. In other words, the structural problems of the regions will not be resolved but instead shifted to Moscow. And that further ups the stakes in the poker for Putin's succession.