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To decentralize or to continue on the centralization track: The cases of authoritarian regimes in Russia and Kazakhstan

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ABSTRACT

Decisions on decentralization versus centralization come as a result of strategic choices made by politicians after weighing their costs and benefits. In authoritarian regimes, the highest-priority political task is that of restraining political competition and securing power in the hands of the incumbent. This task incentivizes politicians to restrict political decentralization (or at least block reforms promoting such decentralization). At the same time, external economic pressures (e.g. globalization) place the task of national competitiveness in the global markets on the agenda, and increase incentives for fiscal and administrative decentralization. Thus, political and economic pressures create contradicting incentives, and in weighing costs and benefits, politicians in different authoritarian regimes make different choices that lead to variation in the form, degree and success of decentralization/centralization policies. In this article we compare authoritarian decentralization in Russia and Kazakhstan.

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A clear global trend toward decentralization was noted by experts as early as the 1990s (Dillinger, 1994; Hooghe et al., 2016; Ter-Minassian, 1997). The role of regional and local governments is expanding, whether it is reflected in the allocation of political powers and administrative responsibilities or measured by the shares of subnational governments in total government revenues and expenditures (Arzaghi & Henderson, 2005; Garman et al., 2001). Decentralization is widely seen as a practice that could improve quality of governance and promote economic efficiency. We are witnessing decentralization in democracies

and autocracies, though there is significant variation in the concrete manifestations of the process in different regimes.

Theoretical and empirical studies have identified that decentralization is strongly associated with democracy (Arzaghi & Henderson, 2005; Canavire-Bacarreza, Martinez-Vazquez, & Yedgenov, 2017; Letelier, 2005; Panizza, 1999; Treisman, 2006). In democracies decentralization is beneficial for political parties and incumbent politicians – it is a “rational act of political parties seeking to maximize their electoral possibilities” (O’Neill, 2005, 18). The electoral incentives of political parties shape important aspects of the design and the practice of intergovernmental relations as political parties organize coalition-building between national and local politicians (Enikolopov & Zhuravskaya, 2007; Filippov, Ordeshook, & Shvetsova, 2004; Riker, 1964). A number of theoretical and empirical studies have also determined

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structural factors modifying and constraining choices of democratically elected politicians in regard to decentralization. Among the most important such factors are economic prosperity, country size and diversity (Treisman, 2006).

Much less is known about factors promoting decentralization in authoritarian regimes. On one hand, as the Chinese example clearly shows, the combination of political authoritarianism and effective fiscal decentralization is possible in practice. In China it works due to the maintenance of political control through party structures (Blanchard & Shleifer, 2001; Landry, 2008). However, there is only limited knowledge of why and under what authoritarian regimes promote decentralization and better governance. According to Faguet and Pöschl (2015) the understanding of the incentives of non-democratic regimes to decentralize constitutes “the black hole at the heart of the decentralization debate that few address and none have satisfyingly answered.” In particular, little is known under what conditions and in what forms decentralization could become politically beneficial and attractive for authoritarian leaders.

The incentives of authoritarian leaders to promote decentralization are especially puzzling in the case of the post-Soviet countries. While most of them are low on democracy scores and are highly centralized politically, the level of fiscal decentralization in many post-Soviet countries is surprisingly high. Indeed, after controlling for a variety of relevant variables, Treisman concluded that “the former Soviet republics stood out as extremely decentralized given their other characteristics” (Treisman, 2006, 312). One might be tempted to explain the high level of fiscal decentralization in post-communist countries in the 1990s by the relative weakness of the newly intendent governments after the Soviet collapse. But the fact is that the level of fiscal decentralization continues to remain relatively high in some post-Soviet countries. How can we explain the choice of the decentralization policies in the region dominated by consolidated non-democratic regimes?

We examine the experiences of two largest post-Soviet countries – Russia and Kazakhstan to advance our understanding of the incentives of non-democratic leaders to promote or restrict various forms of decentralization. Russia and Kazakhstan are selected for comparison because they have many geographical, political and economic similarities but demonstrate distinctive approaches to choice of the constitutional principles and to decentralization. After gaining independence, the national elites of Russia and Kazakhstan have made different choices with regard to center–region relations. Russia’s choice was in favor of federal constitution (the choice that other things equal means a high degree of decentralization), while Kazakhstan constitutionally secured the unitary character of the state. Up to now, the constitutional choices of Russia and Kazakhstan have remained unchanged; however, today the two authoritarian regimes pursue distinctive policies toward decentralization. Quite paradoxically Russia has a centralizing regime while still being a formal constitutional federation, while Kazakhstan is still a unitary state, but it actively seeks to use the practices of fiscal and administrative decentralization.

We suggest that in geographically large and diverse non-democratic countries their leaders, first, secure and centralize political power, and, second, face the fiscal and administrative decentralization/centralization trade-offs. In non-democratic regimes, the highest-priority political task is that of restraining political competition and securing all meaningful powers in the hands of the incumbent. This task incentivizes politicians to promote centralization (or at least block decentralization-aimed reforms). However, such an increasing centralization is likely to reduce economic efficiency, and, thus it could also undermine political legitimacy of non-democratic leaders. On the other hand, fiscal and administrative decentralization is often presented by experts as a practice that could increase governance efficiency, provide better bureaucratic control and promote economic competitiveness. In particular, economic openness and external pressures (e.g. globalization) place the task of increasing national competitiveness in the global markets on the agenda, increasing incentives for greater fiscal and administrative decentralization. Therefore, political and economic pressures promote contradicting incentives, and in weighing costs and benefits, politicians in different authoritarian regimes make different choices which lead to variation in the form, degree and success of decentralization/centralization policies. The article attempts to advance our understanding “on the limits of the possible” for authoritarian regimes with regard to centralization/decentralization dilemma in globalized world.

In our analysis we compare two authoritarian regimes in territorially large countries with similar level of economic development facing challenges of economic globalization. These two regimes have to promote competitiveness of their national economics and various forms of decentralization could serve as instruments of such promotion. We show that the responses to the common challenges are different: though political centralization is maintained in both Russia and Kazakhstan, in Russia it is complemented by fiscal centralization, and the country is isolating, closing itself from globalization. On the contrary, Kazakhstan leadership seriously stakes at the inclusion of the country to globalization processes, and with this regard launches (or at least declares) governance reforms, that in particular envisage fiscal decentralization.

We conclude that, while preserving political centralization, fiscal decentralization is an important part of the development strategy of Kazakhstan leadership. This strategy aims at combining political legitimacy of the incumbent with sending a signal to the outside world about the intentions of the national leader to turn his country into modern nation, competitive and fully included into global world. Unlike Kazakhstan, in Russia under President Putin political and fiscal centralization develop in one direction, strengthening each other. Currently, concerns of integration into the global economy that could stimulate at least fiscal decentralization are overshadowed by geopolitical considerations.

The article is organized as follows. The next section presents theoretical explanations of decentralization in non-democratic countries and our argument. After that we discuss similarities and differences in the practice of decentralization between Russia and Kazakhstan.

1.1. Why authoritarian regimes decentralize

Decentralization in this paper is defined as the assignment of political, fiscal and administrative responsibilities to actors and institutions at regional and local levels (Litvack, Ahmad, & Bird, 1998, 4). There are various forms of decentralization: constitution federalism; decentralization of the selection of subnational politicians and policy making; decentralization of fiscal policy; and decentralization of public administration functions. All these forms of decentralization imply some devolution of decision-making powers to subnational and local governments (Martinez-Vazquez, Lago-Peñas, & Sacchi, 2017).

There are three broad explanations of decentralization in non-democratic countries that emerge from the literature. First, the beginning of democratization and the need for modernization, together with various socio-structural factors, are typical motivations for making a choice in favor of decentralization. Indeed, in democracies the benefits of decentralization can be significant. Well-established literature in the fields of political economy and public choice explains why decentralization has the potential to improve the performance of a government (Musgrave, 1959; Oates, 1999). In particular, the theory of fiscal decentralization states that many public goods or services are in fact local public goods and thus decentralization of their provision can increase economic efficiency. Decentralized governments may be better tailored to the geographical benefit areas of public goods, and better positioned to recognize local preferences and needs. In addition, pressure from inter-jurisdictional competition may motivate regional governments to be more innovative and more accountable to their residents (Musgrave, 1959; Oates, 1999; Tiebout, 1956).

Second, many decentralization efforts have been political responses of non-democratic politicians to state crises, desperate attempts of central elite to hold onto power (Cheema & Rondinelli, 2007). Authoritarian rulers can come to an agreement with those whom they rule by offering limited concessions (Gandhi, 2008). Sometimes ruling elites have attempted to diffuse popular discontent with the performance of the national government by decentralizing some responsibilities to subnational governments (Hess, 2013; World Bank, 2017).

Third, the choice in favor of decentralization can also be explained by external pressures, be these forces of global competition or the influence of international organizations and financial donors. Indeed, globalization supplies strong incentives to decentralize the state; it requires better governance and better economic performance from states, while decentralization could improve both of them, thus increasing national competitiveness. Strengthening governance has been a key objective of most decentralization programs implemented in recent years in various countries (De Mello & Barenstein, 2002). Decentralization is treated by many experts and practitioners as an instrument to improve governance and promote bureaucratic efficiency of non-democratic regimes (Ahmad & Brosio, 2006). Particularly, “in large countries, the principal–agent relations that stretch from the capital to distant peripheries are too complex, and the informational advantages of local actors on the ground

too large, to permit close oversight and control by the center” (Schedler, 2013, 70–71).

However, most decentralization reforms did not materialize in non-democratic countries. Frequently, such reforms resulted only in de-concentration e.g. the transfer of powers and resources to central government agents (bureaucracy) in the regions and local communities. In many cases “governments simply proclaim that they are decentralizing and enact a theatrical image of reform for their donor audiences” and foreign investors (Ribot, 2004, 2).

While the benefits of decentralization can be substantial, decentralization is risky for authoritarian regimes, since it “corrodes authoritarianism by creating loci of power that can gradually develop into a source of political opposition” (Landry, 2008, 10). Moreover, once institutional changes are introduced, “they breed contestation as well as local demands for further decentralization” (Landry, 2008, 10). Faced with challenges that create incentives for decentralization, non-democratic leaders nevertheless see their top priority as thwarting challenges to the rule of the incumbent by preventing the expansion of the ruling coalition and especially attempts to capture political power by regional interests.

All this brings us to the suggestion that non-democratic politicians face a tradeoff: the decision to decentralize or centralize advances some of their political and economic goals at the expense of others. In other words, political and economic pressures create contradicting incentives. It means that strategic politicians in the center will support greater decentralization or centralization only when they face sufficient pressures to do so.

Theoretically the clearest situation arises when both the character of national political competition and the pressures of globalization toward increasing national competitiveness work in the same direction, explaining the politicians’ choice of decentralization. However, situations that are more interesting for researchers arise when the logic of national political competition forces authoritarian incumbents to make a non-alternative choice in favor of political centralization (or at least to block decentralization policy). Then, the incentives for greater decentralization emerging under the pressure of the global economy collide with the task of ensuring the incumbent’s political survival. In this situation authoritarian rulers can choose either to “sacrifice” the priority of increasing national competitiveness through decentralization, instead increasing centralization – both political and fiscal, or to choose more flexible approach combining political centralization with fiscal decentralization.

Below we analyze these two strategies in greater details comparing cases of Russia and Kazakhstan. In both countries we observe: 1) consistent rejection of political decentralization in favor of the presidential “vertical of power”; 2) when decentralization is unavoidable, it practices mostly informally and could be reversed at any moment. It is with regard to fiscal and administrative decentralization as related to economic modernization (openness and capability of attracting foreign investments) and integration into the global economy where Russia and Kazakhstan diverge more and more. Unlike Russia, Kazakhstan is a “normal” state whose development

is not overburdened by geopolitical considerations, i.e. “great power” ambitions. In Kazakhstan, president Nazarbayev has put forward a strategy that aims to transform Kazakhstan into a modern state integrated into the global economy. As a part of such strategy president Nazarbayev has repeatedly promised to promote fiscal decentralization and local self-government as an instrument to improve quality of governance and global competitiveness.

2. Similarities and differences in the practice of decentralization between Russia and Kazakhstan

While we emphasize the differences between Russia and Kazakhstan in their decentralization strategies, importantly there are many structural, political and economic similarities between these two countries. In terms of area, Russia is the largest country in the world; Kazakhstan is also huge – it is almost eight times larger than Germany. Both Russia and Kazakhstan have a multiethnic structure and significant asymmetries in the distribution of population, economic opportunities and natural resources across their regions. The two countries have undergone a painful period of adjustment from centrally-planned Soviet industrial structure to market economies. In fact, they had roughly similar industrial profiles at the start of the transition: industry accounted for 28% in Kazakhstan and 39% in Russia; while services made up 43% of Kazakhstani and 47% of Russian GDP (Åslund, 2001, 37). Since the 2000s both national economies were largely resource-driven, and natural resources had acted as the cornerstone of the countries’ push to prosperity.

In addition to the common structural factors, political development in Russia and Kazakhstan also shows many similarities; in fact, Furman (2005, 197) has argued that “Kazakhstan, in terms of its political structure, is especially close to Russia; hence a comparison of these two regimes is of particular interest.” Also, following Olcott one could say that Russia and Kazakhstan are the most puzzling cases of the post-Soviet countries “because economic growth seemed to provide little incentive for political reform; in fact, the opposite was occurring” (Olcott, 2005, 30). Russia under Putin and Kazakhstan under Nazarbayev have achieved a semblance of economic and political stability as their democratic achievements have been curtailed. Russia and Kazakhstan have a legal opposition, but the system is so structured that it is impossible for the opposition to come to power through peaceful means (Furman, 2005). In both countries the division of power is seriously disrupted in favor of the national executive; presidents are the main political actors, enjoying a high level of popular support and relying on a dominant political party which de facto monopolizes the political space.

2.1. Unitary or federal: The reasons for making constitutional choices in Russia and Kazakhstan

After the Soviet collapse, both Russia and Kazakhstan, taking into account their territorial size, ethnic diversity and already existing administrative divisions, faced a constitutional choice between unitary and federal options. However, in practice the choice was conditioned by institutional framework inherited from the Soviet period and by ethnic factors,

or more precisely by their territorial manifestations, though in Russia and Kazakhstan this factor played different roles.

In Russia, which has inherited the linkage of ethnic groups with territorial divisions from the Soviet Union, ethnic regions pioneered the process of political decentralization even before federalism was formulated in the Constitution of 1993. In the late 1980s to early 1990s, with the appearance of a new resource – mass politics – segmental differences acquired political importance for the first time (especially in economically strong ethnic regions like Tatarstan and Bashkortostan). It was this process of chaotic decentralization and extreme weakness of the center in the early 90s that was later finalized in the choice of an asymmetrical federation under which ethnically distinct subjects of the federation enjoyed special status. In Kazakhstan, on the contrary, the sense of national – primarily Kazakh – identity, and a stronger national center, together with only one potential threat of separatism in the regions of the north and east populated mainly by Russians, determined and made feasible the choice to build a centralized unitary state.

2.1.1. Constitutional choice of federalism in Russia

From the very beginning of Russia’s sovereign existence the issue of center–region relations was one of the most crucial. The elite of ethnic regions were the most active in demanding more political autonomy. One of the essential conditions for the realization of a nation-state project is the existence of a strong and capable national center; this was definitely not the case in the new sovereign Russia, where Moscow in the early 90s became a battlefield between President Yeltsin and the parliament. The position of a weak and internally split national center that lost control over the regions increased the risk of Russia’s disintegration, following the same scenario as the Soviet Union. This explains why Yeltsin’s key priority in 1991–1992 was to sign a document with the regions where regional executives would at least express the intention of preserving the territorial integrity of the country. This document – the Federation Treaty – was signed on March 31, 1992.¹ The signing of the Treaty eliminated the unitary option for Russia.

Federalism in Russia was in fact “choice without choice”, an instrument for at least some guarantee of the regions’ loyalty and for the prevention of chaotic decentralization and ultimate fragmentation of the political and economic space. Discussions among elite groups were not about the choice between federalism and unitarism, but rather about the nature of an “appropriate” federation for Russia, especially with regard to conservation (or cancelation) of the specific ethnic regions. Several alternative projects were under discussion – from the creation of a symmetric federation where all regions would have equal rights and status (as in the US or Germany) to the project of preserving ethnic regions and merging all non-ethnic ones into one huge “Russian republic.”

After the 1993 violent disbanding of Parliament in October 1993, which was considered by many to be unconstitutional, Yeltsin needed to adopt some version of the

¹ The leaders of two autonomous republics (Chechen and Tatarstan) refused to sign the 1992 Federation Treaty.

Constitution as soon as possible. Being under time pressure, the president had no real opportunity to weigh the costs and benefits of different options (within the existing federal choice); in fact he had no choice other than to enshrine in the Constitution (adopted in December 1993) the type of federation described in the Federal Treaty – a highly complex asymmetric federation, consisting of both ethnic regions (republics, autonomous areas, and autonomous regions) and non-ethnic territorial regions (regions, territories, cities of federal jurisdiction). Ethnic republics received the greatest amount of rights (Busygina, 1998).

Quite soon federalism in Russia became the object of serious criticism. But what was criticized was not the choice as such, but rather its imperfect implementation (Busygina, 1997; Lapidus, 1999; Lynn & Novikov, 1997; Stoner-Weiss, 1999; Tolz & Busygina, 1997). Said imperfection, however, did not prevent the federal institutions from surviving (at least de jure) until the era of the new president, Putin, began in 2000. Just as the Soviet legacy conditioned Yeltsin's choice, Yeltsin's legacy – the federal constitution – later conditioned Putin's centralizing reforms.

2.1.2. Constitutional choice of unitary state in Kazakhstan

Officially Kazakhstan became a unitary state with the adoption of the second Constitution in 1995, when the country was for the first time directly defined as unitary.² At the beginning of the 1990s, Kazakhstan experienced a deep structural crisis like all the other post-Soviet republics, but the regional elites were too weak and disorganized to form any serious opposition to the president's choice of unitarism. As Dave argues, “the Nazarbayev leadership exploited the unitary and centralized institutional framework inherited from the Soviet period to reject demands for federalism and cultural or territorial autonomy” (Dave, 2007, 120). Such kind of demands have come primarily from Russian and Uighur political activists, however, have been rejected by the government, “fearing that federalism would unnecessarily dilute central authority and foster secession” (Olcott, 2010, 83).

President Nazarbayev sought to prevent even the potential for a threat to the central authorities from the regions, and immediately after the adoption of the Constitution he came forward with a program for restructuring the territorial organization of the state. The most serious source of territorial threat was the concentration of the Russian population in the northern and eastern regions of the country. This was the legacy of the colonization processes of the Russian Empire and the Soviet policy of industrialization and resettlement. Geographically, this heritage took the form of a territorial split between the north and east of the country, the regions that were more industrialized, more urban and dominated by Russians, and the largely rural and Kazakh-dominated south and west. During the Gorbachev era the central government was already starting a project of expanding the primarily southern-defined Kazakh cultural identity into the Russified regions of the north (Melvin, 2002, 174). The northern and eastern regions responded by

creating the “LAD” political movement,³ which, however, did not manage to win any political representation through elections. The central weakness of this regional challenge to the central authorities was the lack of a common identity and common agenda that could form the basis for mobilizing opposition to the center (Melvin, 2002, 175). The central elite reacted by strengthening the role of the national executive (the president and his administration) and transferring the national capital from the north to Astana (formerly Akmola), which positioned the president to better “proffer patron-clientelism to the North and to distance himself from significant Southern elite networks” (Cummings, 2005, 104). In pursuing the general policy of “Kazakhization”, the central authorities kept in mind the danger of a possible union of the Northern regions with Russia, and chose a rather modest version of national identity that was centered on affiliation to the state rather than to ethnicity.

In *The Concept of National Identity of the Republic of Kazakhstan* approved by the presidential decree in May 1996, the unitary choice of Kazakhstan was defined as “historically immutable fact.”⁴ Moreover, President Nazarbayev emphasized that “Kazakhstan is a unitary state, not a federation, so in matters of public administration it must only draw on the experience of unitary states, in order not to lose the thread of vertical control.”⁵

This decision by the central elite was accepted in Kazakhstan almost unconditionally – political demands to change center–region relations in favor of more regional autonomy were virtually absent. As Hess pointed out: “Nazarbayev effectively isolated his potential political rivals, secured the loyalty of his in-regime clients, avoided the territorial fragmentation of the country, and consequently enabled his inner circle of friends and family to enrich themselves by plundering the extensive energy and mineral resources of the country” (Hess, 2013, 157).

3. Patterns of political centralization

After the Soviet collapse, presidential incumbents promoted greater political centralization both in Russia and Kazakhstan. However, in Russia the tendency toward greater political centralization was not linear, though since 2000s, there was a clear trend of ever increasing centralization (Libman, 2010). Russia is formally a federal state, but currently the practice of political relations between federal center and the regions can hardly be described as federal. Kazakhstan pursued a steadier course of political centralization after the Soviet Union collapse. In summary, Nazarbayev adopted policies that sought to “maximize the power of the center generally and the power of the presidency specifically” (Cummings, 2005, 105). The literature supports the claim that the process of political centralization in Russia and Kazakhstan has been completed in the

³ “Lad” is an Old Russian word for a broad mutually beneficial agreement or consensus.

⁴ Kontseptsiiia formirovaniia gosudarstvennoi identichnosti Respubliki Kazakhstan. Rasporyazhenie Prezidenta Respubliki Kazakhstan № 2995, May 23, 1996 (Online at http://kazakhstan.news-city.info/docs/sistemsl/dok_pegeez.htm).

⁵ www.nomad.su/?a=3-200304040023.

² The Constitution of 1993 has not clearly defined form of government.

2000s. Nazarbayev has redefined the national political system and the center–region relations in a manner that was similar to Putin’s “power vertical” (Peyrouse, 2012).

3.1. Ebbs and flows of political decentralization in Russia

After the collapse of Soviet Union, the Kremlin was progressively losing its levers of influence over the situation in the regions, and the degree of uncontrolled decentralization in Russia reached its maximum by the time of the 1996 presidential election. Bilateral treaties signed during the 1990s between Moscow and the regions, direct elections of governors, that gave them powerful source of legitimacy, as well as changing the procedure of formation of the Federation Council⁶ all contributed to a dramatic increase in regional autonomy.

This general vector to decentralization has coincided with Western expectations and policy recommendations. During 1990s the West promoted Russia’s reforms aimed to consolidate democracy and develop market economy. In particular, President Yeltsin counted on the European Union support as it was an important source of his legitimization in the eyes of many Russian citizens. Since 1991, the EU promoted the TACIS program in order to assist political and economic transformations in the former Soviet Union.⁷ Cooperation within the TACIS framework involved various specific programs, some of them promoting political and fiscal decentralization in Russia. Thus, the demands from the regions for more autonomy have coincided (at least technically) with the EU expectations of Russia’s reforms.

The “high tide” of decentralization under President Boris Yeltsin was followed by powerful ebb – a renewed drive to recentralize governance under President Vladimir Putin. It was the “Yeltsin federalism” that Putin began to destroy prior to his other political innovations. Putin terminated the practice of power-sharing treaties between Moscow and the regions and successfully marginalized the Federation Council (the upper legislative chamber), swiftly erasing prior regional gains by forcing the conformity of regional legislation with that at the national level.

The most significant immediate institutional innovation was the 2001 imposition of an intermediate bureaucratic structure (federal districts) “in the hope that it can make federal processes both more coherent and more to the Kremlin’s liking” (Filippov et al., 2004, 303). Technically these districts were nothing more than offices of the president’s representatives; however “they were vested with the power to watch, control, and push governors, as well as to supervise the law enforcement agencies in the region. Later, when their political mission was mostly accomplished and another system of control (based on Putin’s “party of power”—“United Russia”) was created, the

representatives turned to exercising more routine administrative functions” (Goncharov & Shirikov, 2013, 25).

The second and more substantive wave of political centralization came in 2004 when Putin reinstated the Soviet practice of nomination (instead of elections) and shuffling the regional governors from the special pool of Kremlin-approved candidates (Ross, 2005). In the old Soviet “nomenklatura” style, people from one region would be given leadership jobs in others. Nomination of governors made them the agents of the federal executive (the principal). Indeed, in the new system the governors were subordinated to federal authorities and acted on their behalf, while the latter had at their disposal the instruments to punish or to award them.

In 2012, at the end of Medvedev’s presidency, the institution of elections of regional executives was restored due to the constant demands of the opposition and the scandalous resignation of Moscow mayor Luzhkov. However, a candidate for this position must pass through municipal and presidential “filters”, resulting in strict built-in selection bias.⁸ Moreover, as Reuter (2017) shows, “the Kremlin has kept tight control over gubernatorial elections, and Putin retains the right to remove governors from office” (Reuter, 2017). In March 2017 Russia witnessed a wave of gubernatorial resignations – five in two weeks – these officials resigned and were replaced in rapid succession, in particular, by those who “had never set foot in the region, even as a tourist.”⁹ When deciding on new candidate for gubernatorial office, the main thing was not regional identity of a candidate, but conformity to “profile of an ideal governor” elaborated in presidential administration.¹⁰

3.2. Steady political centralization in Kazakhstan

President Nazarbayev’s position in the Kazakhstan political system was much more secured than Yeltsin’s situation in Russia. After the Soviet Union collapse, Nazarbayev’s figure quickly became a symbol of political and economic stability of the new independent Kazakhstan; he cemented the system, having stable support in the parliament and within population. This was in part because the president of Kazakhstan skillfully promoted his personal authoritarian rule at the expense of economic reforms and emerging democratic institutions.

Nazarbayev’s focus on maintaining his personal power limited the scope of political and economic transformation in the 1990s (Kesarchuk, 2015). Importantly, large scale market reforms in Kazakhstan did not occur until after presidential power had been consolidated using informal means (Isaacs, 2010). Gradual political centralization enabled the central authority to oust regional competitors and monopolize resources through emaciating regional powers, moving

⁶ Instead of direct elections, the seats in the Federation Council (two for each region) were given to the head of the regional executive (president or governor) and the head of the regional legislative (speaker of regional legislature).

⁷ TACIS (Technical Assistance to the Commonwealth of Independent States) was designed as a tool to assist and to guide political and economic transformations in 13 recipient countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan and Mongolia.

⁸ To be registered as a candidate for the governor’s office, one must gain support from 5% to 10% (depending on the region) of the deputies at the municipal level, and the deputies that support this candidate must represent not less than ¼ of municipal districts. The president has the right to “consult” with political parties that nominate candidates.

⁹ <https://www.nytimes.com/2016/09/09/opinion/how-do-you-get-to-be-a-governor-in-vladimir-putins-russia.html>.

¹⁰ <http://www.rbc.ru/politics/17/02/2017/58a6ea529a79477d23669cfe>.

the national capital to the periphery, creating top-down parties and ensuring center–region crossovers in the recruitment process. All these measures made it possible for the center to buy off regional elites when they need them, for instance, during election periods (Cummins, 2005, 103).

The Constitution provided Nazarbayev with “veto power over local and provincial political decisions and the power to abolish provinces” (Cummins, 2005, 11). Since 1995 he implemented a significant territorial restructuring to dis-aggregate the Russophone northern regions – five regions were fused with their neighbors (Hughes & Sasse, 2001). A new generation of *akims* (regional governors) loyal to the president were appointed in the regions, and “the center focused on vertical power relations preventing building strong networks in the regions. By the end of 90s the balance of power was clearly shifted towards central authorities” (Melvin, 2002, 178).

A comprehensive summary of the decentralization process in Kazakhstan after 2000 has been provided by Alexander Libman (2013, 173): “The formal appointment of akims by the central government made the personnel selection schemes the main instrument of recentralization: former members of the central government were appointed as akims. Furthermore, the central government re-established control over oil and gas resources of the regions... Thus modern Kazakhstan turned into a de-facto and de-jure highly centralized political entity.”

4. Fiscal decentralization

While Russia and Kazakhstan are highly centralized politically, both countries are among the group of nations with the high level of fiscal decentralization (Landry, 2008; OECD/UCLG, 2016). Already in 1990s Luong observed that: “the distribution in expenditures between levels of government in Kazakhstan was similar with Russia. The similarity is striking, since Russia is a federation and thus should automatically have a much higher portion of expenditures at the subnational level” (Luong, 2004, 16). Later, Hess confirmed that Kazakhstan has been operating as a considerably more fiscally and administratively decentralized state than similar non-democratic nations (Hess, 2013, 160).

4.1. Fiscal decentralization in Russia

In Russia the 1993 constitution put a lot of formal powers in Yeltsin’s hands, but in practice he was quite isolated – not backed by any political party, in continued conflict with the State Duma, and with his support among the citizens rapidly declining from the mid-1990s onwards. On top of that, the country was deeply immersed in structural economic crises and the government constantly suffered from a lack of budget resources.

Yeltsin’s approach to the regions was determined by the logic of his political survival and the severe budget restraints. With the limited resources available, Yeltsin had to preserve the loyalty of the regional bosses through exclusive deals, development of political favoritism and personal bargaining. As a result, informal institutions and

rules of the game either began to replace new formal institutions, or to fill the existing institutional vacuum.

As Solnik argued, Yeltsin’s *only* attempt to impose a universal and transparent set of fiscal rules occurred in October 1993, when he “signed a Presidential decree ordering the Council of Ministers to impose harsh sanctions against any regions or republics delinquent in the payment of tax revenues to the center... The move was effective, prompting all but Tatarstan and Chechnya to resume paying taxes to the federal budget” (Solnik, 1998, 64).

Summarizing the relations between Moscow and the regions in the 1990s, Young argues that these “were largely defined through the negotiations and agreements concerning the demarcation of power and authority between the two levels of government, and include such specific matters as the share of tax revenues and the amounts of transfer payments from one level to another ... the ‘federalization’ of Russia is perceived as a result of bargaining, or deals negotiated between different jurisdictions” (Young, 2000, 178).

Elected in 2000, popular president Putin inherited from his predecessor a constitutionally federal and de facto decentralized Russia. Competent use of the populist rhetoric of preserving Russia’s territorial integrity, control of the security apparatus and obedience from the parliamentary majority allowed Putin undertake rapid centralization with the aim of reining in the independence of Russia’s regional bosses. One should note that there was little resistance to Putin’s recentralization. All political parties within the State Duma supported his attacks on the Federation Council and regional executives. Regional governors themselves also showed almost no resistance (Filippov et al., 2004, 313).

At some point Putin could probably have put an end to federalism, but this would require changing the constitution. However, he clearly aimed to destroy political and economic independence of the regional leaders and, mostly importantly, the Yeltsin’s asymmetric fiscal federalism. The first way of the political centralization was accompanied by gradual strengthening of fiscal one: from 2000 to 2003 the share of consolidated regional budgets in the consolidated budget of Russia decreased from 45.2% to 40.5% (Klimanov & Lavrov, 2004, 113).

However, time proved that the “power vertical” build by Putin that was thought to be the main pillar of centralization did not bring a strict hierarchy of governance; it much more resembled an informal imperial order (Busygina & Filippov, 2012). Importantly, regional actors recognize that the federal center is practically indifferent to many local outcomes of the governance: above all Moscow demands from regional executives “electoral results” and “political stability” in their regions. As long as such federal priorities (electoral results and stability) are fulfilled, Moscow is willing to reward regional executives with significant discretion elsewhere. Yet, if governors do not deliver pro-Kremlin votes in federal elections, Moscow could target their replacements for the reason of ‘losing the President’s confidence’. Since the president does not need to explain the concrete manifestations of governor’s “misconduct”, “any governor could be fired at any time depending on the will of the federal president” (Reisinger & Moraski, 2017, 98).

Discussions on the necessity for urgent modernization of Russia’s economy to increase its competitiveness in the

global economy became part of official political discourse under President Medvedev. Economic decentralization was meant to be a significant constituent element of the modernization strategy. The elite had to admit that Russia in its current state was not capable of coping with the challenges of globalization, and the data fully confirmed this – the Doing Business report (assessing the situation in 2013, that is before the crisis in Ukraine and the introduction of anti-Russian sanctions by the West) placed Russia in 92nd place in a ranking of 189 countries; for comparison, it was far below Kazakhstan, which was in 50th place (World Bank, 2014, 3).

Only a few regions had sufficiently strong local competitive advantages and were successful in attracting investments; these were the capital cities of Moscow and St Petersburg, regions with abundant natural resources, as well as some border regions. Kayam, Yabrukov, and Hisarciklilar (2011) demonstrate that FDI allocation in the Russian regions chiefly depends on natural resources and market size. Moscow and the resource-rich Sakhalin region attracted more than 50% of FDI inflow between 1995 and 2012. At the other extreme, regions located in the Russian South and North Caucasus gained \$22 and \$4 per capita Foreign Direct Investments while the Central federal district (mostly Moscow city and Moscow Region) gained \$220 per capita. Moreover, “the current highly centralized taxation system does not allow most of Russia’s regions and municipalities to balance their budgets without external assistance. They are dependent on transfers from federal budget or regional budgets, respectively, and in many cases these transfers are the main sources of funding. These transfers reached 35% of federal budget expenses in 2008, 36% in 2009, and 38% in 2010” (Goncharov & Shirikov, 2013, 34).

In practice, Medvedev’s program of the modernization never even began, remaining pure rhetoric. Still, until 2014 Russian leadership tried to isolate domestic politics from international influences without having to resort to economic and informational isolation. It sought to combine both effective silencing of pro-democracy critics who might pose a danger to Russia’s political status quo and openness to the West (Busygina & Filippov, 2013). This combination stopped working when Russia’s geopolitical ambitions acquired greater domestic political importance than considerations of successful integration into global economy. Russia’s international revisionist behavior – the annexation of Crimea in the beginning of 2014 and support of separatists in Eastern Ukraine – had its consequences in the form of progressive isolation and economic recession in Russia. It required the simultaneous necessity of spending money on Crimea (a matter of Russia’s geopolitical prestige), on the Russian Far East and – most important – on fulfillment of social obligations such as payment of pensions and salaries to those employed in the public sector. Such increased need for financial redistribution stimulated further fiscal centralization. Overall, since 2005 the share of own regional revenues in the Russian consolidated budget has declined by 15 percentage points.¹¹ In fact, by 2013 the share of the regional budget revenues in the national GDP has

declined to the minimum since 1995 to 9.0 percent (OECD/UCLG, 2016).¹²

4.2. Fiscal decentralization in Kazakhstan

In Kazakhstan’s case, the constitutional choice in favor of the unitary option did not and does not mean that the state is built as a vertically integrated centralized fiscal structure; the government practice is much more complicated, as the central state must engage in ongoing negotiations with regional authorities in order to both make and implement economic policy. As Hess observed, “in spite of the formal design of the unitary Kazakh state, the system is better characterized by extensive de facto decentralization, where substantial power and control of state resources have been wielded by subnational governments” (Hess, 2013, 158–159).

From the first years of independence in Kazakhstan, there were more or less significant “traces” of fiscal decentralization. In the 1990s the national center was too weak to suppress regional demands for autonomy from the oil- and gas-rich regions of Western Kazakhstan. Afterwards the central executive used the instruments of decentralization to control the regional elites (Libman, 2008, 15). What is important is that economic decentralization was informal (de facto) rather than formal (de jure), and “the key difference between de facto and de jure decentralization is that in the latter subnational control is legally codified while in the former subnational control is illegal but nonetheless exists in practice” (Luong, 2004, 8). Luong found a great deal of evidence proving that “while, on paper, the central government in Kazakhstan has the sole authority to collect taxes at all levels of government and set tax rates for the country (with the exception of a few local taxes), there is sufficient evidence based on these indicators to suggest that this is not the case in practice. The central tax agencies operating at the subnational levels are not under the exclusive control of the central government and tax rates are not uniform, but rather, subject to the needs and interests of subnational government officials” (Luong, 2004, 9). “The result has been a *de facto* dual subordination of tax administrators to the central tax authorities and to subnational government officials, with an important impact on tax collections at all levels of government” (Dabla-Norris, Martinez-Vazquez, & Norregaard, 2000, 15–16). Luong even showed that “the distribution in expenditures between levels of government in Kazakhstan was similar with Russia. The similarity is striking, since Russia is a federation and thus should automatically have a much higher portion of expenditures at the subnational level. At the same time, Kazakhstan differs dramatically from Russia in that there are no formal expenditure responsibilities” (Luong, 2004, 16). Hess concludes that Kazakhstan has been operating as a considerably more fiscally and administratively decentralized state than similar non-democratic nations (Hess, 2013, 160). According to OECD/UCLG (2016) data, in 2013 the total regional budget revenues were equal to 9.5 percent of the national GDP (compared to 9.0 percent in Russia).

¹¹ <http://www.rbc.ru/newspaper/2017/03/09/58be66889a794723dad6dac>.

¹² <http://www.forbes.ru/mneniya-column/vertikal/272987-regionalnye-byudzhetny-2015-tri-sposoba-resheniya-problemy-defitsita>.

Most recently there was a tendency of increasing fiscal independence of the Kazakhstan regions – while in 2012 the regions kept 28 percent of all taxes collected, in 2015 the regional share has increased to 33.6 percent.¹³ In Russia, since 2004 the regions keep less than 30 percent of all taxes collected.

It should be stressed, that the guaranteed political centralization makes it possible for Nazarbayev to experiment with informal decentralization practices without any risk for the powers of the central state. Regardless of the presence of various instruments of decentralization, it has always had an exclusively fiscal and administrative character, never spilling over to the political sphere which would imply political autonomy of the regions. In other words, informal fiscal decentralization has never translated into genuine subnational autonomy (Hess, 2013, 161).

For Kazakhstan leadership the goal of including the country in the processes of globalization was the top priority since the late 1990s. An important initiative of the central authorities (that also had an impact over territorial relations) was the reform of the Kazakhstan public sector. The reforms were launched within the framework of the “Kazakhstan 2030” strategy and were meant to facilitate the country’s economic development and ensure the achievement of its goal of being one of the top fifty competitive economies in the world by 2030 (Amagoh & Bhuiyan, 2010, 8). The program included civil service and e-governance reforms, as well as steps toward fiscal decentralization (Bhuiyan, 2010). The President’s Address to the people of Kazakhstan in 1997 stressed that “power decentralization and the alignment of authorities to the lower layers directly involved in execution of the activities is so obvious that central and any other state bodies will demonstrate their necessity and usefulness. Within the market conditions we are to establish and strengthen competitiveness between regions on the principle: the best region is the region with better living standards. Accordingly, productive forces should be concentrated in places with better conditions. Regional competitiveness is to be based on the larger independence of regions, especially in the budget sphere where excessive centralization is evident.”¹⁴

Next, “the concept of separation of powers between levels of government and improved intergovernmental relations” was developed and approved by the Government of the Republic of Kazakhstan in February 2003. A special working group on the decentralization of public administration headed by Dariga Nazarbayeva, the deputy of the Majilis of the Parliament of the Republic of Kazakhstan (and the daughter of the President) was established in 2004. By 2008 Fitch Ratings recorded some slow but steady progress in the process of the regional fiscal decentralization.¹⁵

As a part of the 2015 presidential campaign, Nazarbayev put forward the “100 steps to realize five institutional reforms”

strategy of state modernization. It was a step-by-step strategy for Kazakhstan’s integration into the global economy and transforming Kazakhstan into a regional (and, in time, global) financial center attractive for investors, especially for multinational corporations.¹⁶ At the elections held on April 26, 2015, Nazarbayev’s result once again confirmed that there is no alternative figure in Kazakhstan politics.¹⁷

On a special televised address on January 30, 2017 to the nation, President Nazarbayev laid out the groundwork of what he called the “third stage of Kazakhstan’s modernization.” Nazarbayev explained that the first [modernization phase] was the creation of an entirely new independent Kazakh state on the ruins of the Soviet Union. “The 2nd modernization began with adopting the Strategy-2030 and creating a new capital city Astana... The country broke away from the economic crisis zone and joined the world’s 50 most competitive economies.”¹⁸ Nazarbayev posed a challenge of carrying out the implementation of Kazakhstan’s third modernization – aimed “to create a new model of economic growth that will provide the country’s global competitiveness.” Fiscal decentralization policy is critical part of the new program: “in previous years a large number of functions and powers have been delivered from the central to the local level. Now they need to back up sufficient financial autonomy.”

5. Conclusion

Both political and economic considerations come into play when politicians make the choice between decentralization and keeping the country centralized. The decisions that come as a result of this strategic choice are made by politicians after weighing their costs and benefits. Conventional wisdom tells us that in authoritarian regimes the survival of the incumbent is the most significant political reason for preventing decentralization (or even increasing the level of centralization). On the other hand, since most authoritarian regimes seek to integrate into the global economy, the task of increasing national competitiveness through stimulating the country’s economic development may push incumbents to choose a decentralization strategy. Therefore, political and economic considerations can create contradictory incentives for politicians. Furthermore, their “room for maneuver” is constrained by previous constitutional choices, which can’t be undone without substantial risk of political destabilization.

After gaining independence, the political elites of Russia and Kazakhstan have made different choices with regard to center–region relations: Russia chose federalism while Kazakhstan constitutionally secured the unitary character of the state. In Russia the constitution has put a wide range of rights and responsibilities in the hands of the president. However, during the 90s, the size of the ruling coalition,

¹³ <https://www.kursiv.kz/news/finansy/v-kazahstane-idet-finansovaa-decentralizacia-regionov/>.

¹⁴ Kazakhstan-2030. Prosvetanie, bezopasnost i uluchshenie blagosostoyaniia vsekh kazakhstanstev. The address of President Nazarbayev to the people of Kazakhstan. October 16, 1997 (Online at: http://www.akorda.kz/ru/page/kazakhstan-2030_1336650228).

¹⁵ <http://www.investkz.com/articles/3012.html>.

¹⁶ <http://top.rbc.ru/politics/24/04/2015/5536538a9a79476c30b4b154>.

¹⁷ Nazarbayev was elected by 97.75% of the voters (<http://www.zakon.kz/4707234-itogi-vyborov-prezidenta-kazakhstana.html>).

¹⁸ http://www.akorda.kz/en/addresses/addresses_of_president/the-president-of-kazakhstan-nursultan-nazarbayevs-address-to-the-nation-of-kazakhstan-january-31-2017.

together with constant conflict with the parliament, deep structural crisis and the progressive decrease of President Yeltsin's popularity made his political survival possible only through exclusive deals with regional bosses, i.e. through chaotic and informal political and fiscal decentralization that seriously weakened the Russian central state. Following the change in structural conditions, the new president Putin dismantled "Yeltsin federalism" by suppressing political competition, and undertook massive centralization with the aim of reining in the independence of Russia's regional bosses. Until 2014 the strategy of Russian leadership had been to isolate domestic politics from international influences without having to resort to economic and informational isolation. This strategy was abandoned when Russia's geopolitical ambitions acquired greater importance than considerations of successful integration into the global economy. This makes the preservation of current degree of political and fiscal centralization, or even further centralization the most probable forecast for Russia's future. In Kazakhstan, unlike Russia, the president Nazarbayev remained a symbol of the country's consolidation and stabilization during the whole period after the country has gained its sovereignty, and the national leader is not overburdened with geopolitics. Politically the country remains highly centralized, though the absence of significant risks for the incumbent, and his coherent intention to integrate Kazakhstan into the global economy, allow Nazarbayev to experiment with fiscal decentralization while maintaining the flexibility of center–region relations.

Conflict of interest

The authors declare they have no conflicts of interest.

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