CHAPTER 3

Fiscal Transfers and Fiscal Appeasement

Moscow's regional fiscal policy in the early 1990s had few admirers. The way transfers and tax breaks flowed to different regions struck most experts as haphazard, unpredictable, and economically inefficient—if not outright corrupt. Charitable observers complained merely of randomness: one compared the distribution of funds to the aimless collisions of particles and gas molecules in Brownian motion.[1] Others saw in the process the more unsavory work of individual lobbyists cashing in on personal connections and access. Regional lobbyists rarely seemed to leave the capital's hotels. In 1992, the federal budget was revised quarterly because of unpredictable inflation rates, prompting seasonal influxes of regional representatives. In the June 1992 round, 85 of the 89 regions sent delegations to Moscow to protest their assigned spending levels and to press for changes (Wallich 1994, 45–46). The next year, all 89 regions reportedly obtained some sort of special fiscal arrangement, through tax breaks or dispensations.[2]

Nor did the policymakers responsible for such allocation have much to say in their own defense. "In 1992," the prime minister Viktor Chernomyrdin told reporters the following year, "there was no regional policy in Russia" (Vetrov and Shmarov 1993). In early 1994, President Yeltsin was still apologizing. "Relations with the regions are acutely in need of a strategy," he acknowledged. "Hitherto we have continued papering over the cracks" (*Trud* 1994, 1).

Were the results of this process as random as many observers thought and as policymakers themselves seemed to admit? Did fiscal outcomes reflect only the relative persistence and connections of lobbyists reaching agreements in back offices around the capital? This book argues that, on the contrary, a clear political logic underlay the pattern of central fiscal redistribution to the country's regions. The results were neither random nor predominantly shaped by personal connections. To a considerable extent, fiscal benefits were used to appease regions where leaders, the population, or both were prepared to challenge the existing constitutional or economic order in potentially threatening ways. This chapter presents the evidence on which this claim is based. Subsequent chapters argue that this strategy of selective appeasement—messy, nontransparent, economically inefficient though it was—did serve an important political purpose. It knit regions to the center, defused most threats of territorial secession or other major political challenges, and helped to preserve the fragile cohesion of the Russian federal state.

The next section describes the system of fiscal redistribution that evolved in Russia in the 1990s. I then go on to examine the pattern of aggregate net transfers that resulted. I discuss the possible explanations suggested by economic and political science theory for why some regions might benefit more from central fiscal policy than others, and use multiple regression to test how well such hypotheses fit the evidence.[3]

Fiscal Redistribution in Russia

As in most federal states, large amounts of money flowed back and forth between regional and central governments in Russia in the 1990s. Each region was required to remit a portion of the tax revenue collected on its territory to the center, at rates determined by bilateral negotiation.[4] Central state bodies, in turn, provided the regions with a range of different types of transfer—subventions, budgeted investment grants, subsidized central credits, off-budget fund payments, and discretionary benefits such as exemptions to export duties.

Unraveling this complex network of financial and tax flows is difficult. One has to appreciate the paradoxes of the Soviet order in order to understand the hybrid fiscal system that evolved out of its decay. The Soviet regime was organized as a centralized, redistributive system, in which the production and distribution of goods and materials were centrally planned. In Moscow offices, bureaucrats set quantities to be produced and prices to be charged for hundreds of thousands of commodities, based on their estimates of productive capacity and on the economic priorities approved by the Supreme Soviet and party leadership. Then the national plan was translated into the necessary orders and materials allocations for particular ministries and enterprises.

That, at least, was how the process was supposed to work. In fact, by the late Brezhnev period an "administrative market" had evolved within the architecture of the centralized command system. In this sphere, official positions and connections functioned as a form of capital (Naishul 1991, 1993; Kordonsky 1991, 1992; Aven and Shironin 1987; Aven 1992; Grossman 1990). Favors were traded between party officials and industrial directors; plan directives were bent; and numerous black and "gray" markets existed to trade everything from rare books to foreign currency. In part, such informal bargains provided the flexibility necessary to fulfill the goals of the planners in the face of unforeseen bottlenecks; in part, they subverted central aims, subordinating them to the material interests of local party leaders or underground businessmen.

The plan became an arena for bargaining, with enterprise directors and regional party officials traveling to Moscow to enlist the aid of their ministry in lobbying party officials and planners to increase their allocations. A large, cyclical system of group pressures, focused on the party Central Committee, periodically shifted the priorities of the plans between developing agriculture, military industry, the energy complex, and other sectors (Kordonsky 1992; Neshchadin 1995). A smaller-scale but constant process of individual lobbying shaped the way each annual plan's targets were allocated among the thousands of enterprises. Assignments were negotiated and renegotiated, sometimes as late as December of the planned year (Winiecki 1991, 33).

Within this system of decayed administrative planning, budgets and money played a relatively unimportant role, essentially as accounting tools. The key objects of trade—both official and unofficial—were either physical goods themselves or the administrative authorizations to buy them, known as *fondi*. Money flows were calculated to meet the needs of the physical plans, at all levels of the system. Central Bank credits were automatic, small, and of limited significance since in conditions of endemic shortage, without *fondi* money could buy little (IMF et al. 1991, 107; Garvy 1977; Gregory and Stuart 1990).

Budgets were centralized and disaggregated like other parts of the planning system. Local budgets were part of the "unified" All-Union budget, assembled largely by Gosplan in Moscow, approved by the Supreme Soviet, and implemented by the Finance Ministry (Berkowitz and Mitchneck 1992; Wallich 1994, 27–29). Tax revenues collected locally were shared "upward" between different levels of government (Wallich 1994, 10). Some entered the local budget directly (e.g., profit remittances from enterprises and organizations under local jurisdiction); others were split on the basis of formulas negotiated between lower and higher level officials (e.g., turnover tax, profit tax on republican enterprises and organizations).

The economic reforms of the late 1980s and early 1990s changed this system in three fundamental ways. First, measures to give individual enterprises greater autonomy critically weakened the industrial ministries, which had served as the key channel of bids and pressures between the enterprises and the planners. Planning and budgeting had traditionally been oriented far more toward industrial sector needs than geographical concern (Bahry 1987a, 35). With the weakening of the ministries, the central role in lobbying passed to the enterprise directors themselves, who started knocking directly on the doors of the prime minister and other government officials. And, increasingly, they were assisted by regional political leaders, who were themselves lobbying Moscow ever more insistently for particular regional benefits and privileges.

The second, even more revolutionary change came with price liberalization in 1992. Instead of lobbying for materials, plan targets, or *fondi*, industrialists began to lobby for monetary prizes—budget allocations, tax breaks, central credits. Many of the techniques and procedures were taken over directly from the "administrative market," but the market had become monetized. The offices of Gosplan (rechristened the Ministry of Economics) became a less essential stop for regional lobbyists than those of the Central Bank—and later, as the Central Bank was increasingly domesticated by the government, than those of the Finance Ministry.

Third, in part by central design, in part as a result of lobbying by regional officials for central aid, more and more tax revenues and spending responsibilities were devolved to the regional governments (Wallich 1994, 6).[5] While federal state spending dropped from 23.4 percent of GDP in 1992 to 18.6 percent in 1994, regional and local spending rose from 12.7 percent to 17.5 percent (see table 3.1);[6] and while central budget revenues fell from 15.9 to 13.3 percent in the same period, those of the regions rose from 12.8 to 14.6 percent.

TABLE 3.1. Estimated State Budget Revenues and Expenditures in Russia in the Early 1990s

	GDP (%)				
	1992	1993	1994	1995	1996
Revenues	46.1	39.4	37.8	33.9	32.3
Federal	15.9	11.8	13.3	13.7	12.5
Regional + Local	12.8	15.0	14.6	12.4	12.3
Off-budget funds	17.4	12.6	9.9	7.9	7.5
Expenditures	62.9	47.9	45.1	37.8	35.0
Federal	23.4	17.2	18.6	15.7	12.3
Regional + Local	12.7	17.0	17.5	14.6[a]	15.0
Off-budget funds	26.8	13.8	9.1	7.5	7.7
Industrial Off-Budget Funds					
Revenues	5.8	4.2	2.5	1.5	n.a.
Expenditures	3.6	3.3	2.3	n.a.	n.a.
Central Bank Directed Credit[b]	15.5	5.0	1.9	n.a.	n.a.
Memo: GDP (trillion rubles)	18.1	162.3	630.0	1,659.2	2,256

Source: Revenue for all years calculated from World Bank operational data, April 1997. Expenditures: 1992–94: Le Houerou 1995, calculated from tables 1.1, A1–A3; Andrei Illarionov, "Attempts to Carry Out Policies of Financial Stabilization in the USSR and Russia," *Problems of Economic Transition,* June 1996, 39 (2): 5–48. State budget revenues and expenditures exclude intergovernmental transfers. 1994 without Chechen republic. Cash not commitment basis. 1995: *Russian Economic Trends,* 1996, 5 (2), calculated from 11, 12, 22, 28–29. Figures have been adjusted where appropriate to exclude intergovernmental transfers, using data from Lavrov 1996, in table 2. 1996 expenditures from Institute for the Economy in Transition, *Economic Trends and Perspectives,* February 1997. Off-Budget Fund 1996 revenues and expenditures from *Russian Economic Trends,* 1997, 3: 28. Industrial off-budget funds: figures from Le Houerou 1995 and World Bank operational data (for 1995).

[a]Assuming RET's figure of 30.3 percent GDP for consolidated budget expenditures does not double count the 1.8 percent intergovernmental transfer.

[b]Estimate from Le Houerou 1995 and Illarionov 1996, 32; includes directed credit for investment and conversion.

Subnational governments were responsible for most social spending, infrastructure, consumer subsidies, housing, heating, and other communal services (Le Houerou 1993, 8). Their share in both economic and social spending soared in the early 1990s. By 1994, the regions and localities were responsible for 80 percent of consolidated budget spending on education, 88 percent of spending on health, 64 percent of spending on culture and the mass media, 74 percent of spending on social protection, and 71 percent of spending on the national economy (mostly capital investment and subsidies) (Le Houerou 1995, 22).

Fiscal decentralization also reflected the centrifugal pressures of many of Russia's regions and ethnic republics, which picked up the separatist banner after the Soviet Union collapsed (see chap. 2). A few—Bashkortostan, Chechnya, Tatarstan, and Sakha (Yakutia)—stopped or greatly reduced remittances of tax revenue to the Russian budget. No overarching organization had replaced the Communist Party, previously the institution that had resolved interregional or interindustry conflicts. Fiscal rights and responsibilities became a key arena of center-region competition.

In short, Russia's fiscal institutions and traditions in the early 1990s resembled a monetized and decentralized version of the "administrative market" of the Brezhnev era. Budgets were negotiated upward, from the smallest rayon to the federal Finance Ministry. Each unit bargained intensely with its superior, strategically distorting the upward flow of information in order to get a favorable spending ceiling, revenue share, and, if necessary, subvention. Norms of provision, while used as reference points, served more as arguments in the interlevel trade than factors in their own right.[7] As a result, in one analyst's view, the budgetary system of the mid-1990s was "not truly a 'system', but rather a series of ad hoc bargained agreements, nontransparent at best, whose effects and incentives are not well understood" (Wallich 1994, 33).

Legislatures at each level had authority to approve the budget and revenue-sharing rates. But in practice it was largely officials of the finance department who prepared and implemented them. At the central level, parliamentary deputies were often viewed by regional or industrial lobbyists as a means to gain access to or put pressure on the government officials who did the actual allocation. According to Mark Yanovsky, a department head at the Ministry of Economics, "the role of parliament is that of a hammer which beats through" (Yanovsky 1993).

Several attempts were made to rationalize the legislative and administrative framework of intergovernmental finance. But most were only implemented partially, or not at all. The "Basic Principles of Taxation" Law, passed in December 1991, assigned different taxes exclusively to different levels of government (corporate and personal income taxes to the regions; VAT, export taxes, and certain excise taxes to the federal government). In practice, however, the regions resisted and revenue sharing survived. Corporate income or profit tax and VAT continued to be divided between the federal and regional governments, at changing, bilaterally negotiated rates. A law on subventions, passed in 1992, was never implemented (Wallich 1994, 56).

The greatest apparent victory of the central rationalizers came in 1994, with the introduction of a system to finance aid to ostensibly needy regions through a redistributional Fund for Financial Support of the Subjects of the Federation, which made payments based on publicized formulas. Simultaneously, most soft credits previously handed out by the Central Bank were made part of the budget. However, despite these efforts, "the systemless distribution of benefits and subsidies to different regions continued" (Lavrov 1995a). Expenditures from the Support Fund were dwarfed by other uncoordinated and unregulated budget payments, and, as will be demonstrated, the results of allocation even from the explicitly need-oriented Fund were themselves politicized. The system, as of 1995, remained "unsettled—and unsettling" (Le Houerou 1995, ii).

Tracing these tangled trails of money is difficult—what one hand gave, another seemed often to be reclaiming, redirecting, or misappropriating.[8] But the total amounts were quite large. According to one analyst's estimates, total federal transfers to the regions along with federal off-budget fund spending came to about 29 percent of GDP in 1992.[9] If one includes all Central Bank credits, the total rises to nearly 34 percent. Tax and off-budget fund revenues remitted by regions to the center, meanwhile, came to 26 percent of GDP. The total flows (for which data are available) had fallen substantially by 1994, but still remain sizable. Transfers from center to region that could be identified plus spending of federal off-budget funds came to 15.7 percent of GDP.[10] Meanwhile, tax and off-budget fund contributions remitted to the center in 1994 totaled about 19 percent.[11]

Four main categories made up the bulk of center-region transfers (see table 3.2). First, *budget transfers* of different kinds (subventions, payments from the regional support fund, net mutual payments, and short-term budget loans) occupied a growing share of the total—1.5 percent of GDP in 1992 but 3.4 percent in 1994.[12] These were also becoming increasingly important for financing regional spending. In 1992, federal budget transfers constituted about 10 percent of regional revenues, but by 1994 their share was 19 percent. Besides transfers to lower level budgets, the federal budget contained various spending programs with regionally focused impact: for instance, centrally financed investments (2.4 percent of GDP in 1992 and 2.3 percent in 1994) and budget subsidies to agricultural producers and the coal industry (1.9 percent of GDP in 1992).[13]

Such fiscal flows emerged from a complicated interaction of government and parliament. The initial budget draft was prepared by the Finance Ministry in Moscow, on the basis of "bids" by the large enterprises, regional officials, and remaining industrial ministries. Once approved by the government, it was submitted to the parliament where it was given several readings and amended. Finally, after the parliament voted for it, the budget was signed into law by the president. Thus, the process admitted numerous points of pressure in the ministries, government, and parliament for different lobbyists to get details changed.

TABLE 3.2. Estimated Fiscal and Financial Transfers from Center to Regions, 1992–96

	1992		1994		1995	1996
	bn Rs	%GDP	tr Rs	%GDP	%GDP	%GDP
1. Direct transfers from federal budget, total	263.8	1.5	21.4	3.4	1.5	1.9
• Subventions and/or payments from RSF	142.5	0.8	4.9[c]	0.8	1.0	0.8
• Net mutual payments	105.8	0.6	16.4	2.6	0.4	0.8
• Short-term budget loans	15.5	0.1	0.1	0.0	0.1	0.3
1A. Indirect transfers by increasing region's share of VAT	n.a.	n.a.	3.4	0.5	0.3	0.4
2. Subsidy to "closed cities"	n.a.	n.a.	0.6	0.1	0.1	0.1
3. Budget investments[b]	442.6	2.4	14.6	2.3	n.a.	n.a.
4. Budget subsidies to agriculture[b]	168.0	0.9	n.a.	n.a.	n.a.	n.a.
5. Budget subsidies to coal industry[b]	180	1.0	n.a.	n.a.	n.a.	n.a.
6. Conversion program[b]	63.0	0.4	0.7	0.1	n.a.	n.a.
7. Directed credits for inv. and conversion[b]	204.0	1.1	1.4	0.2	n.a.	n.a.
8. Central bank directed credits[b]	2,595	14.4	10.5	1.7	n.a.	n.a.
9. Fed. off-budget fund expenditure[d]	1,730	9.6	49.9	7.9	7.6	7.7
10. Discretionary benefits	451.2[a]	2.5	n.a.	n.a.	n.a.	n.a.
Total (1–10, but not 1A)	6,097	33.7	99.2	15.7		
Memo: GDP	18,100 bn Rs		630 tr Rs		1,659.2 tr Rs	2,256 tr Rs

Source: 1992, 1994: Freinkman and Titov 1994, 15 and World Bank operational data; IMF Economic Reviews, *Russian Federation* 1994; Le Houerou 1995. 1995–96: Lavrov 1996, 37, World Bank operational data, *Russian Economic Trends* 1997, 3: 28; (8) from Illarionov 1996, 32.

[a]First 9 months.

[b]To enterprises, not regional governments; figures for 1994 budget investments, calculated from Goskomstat Rossii 1995, 842, 848; those for 1994 investment and conversion credits, from Sinelnikov (1995, table 5-4).

[c]Of this, 2.3 trillion was direct payments from the Support Fund, 2.6 trillion was a subvention to Moscow.

[d]Not including import subsidies; for 1992, 1994, calculated from Le Houerou 1995, table A4. 1995–96 from *Russian Economic Trends* 1997, 3: 28.

The second category of center-region transfers was *directed credits,* allocated by the Central Bank in collaboration with the Ministry of Finance and Ministry of the Economy, to support agriculture, grain procurement, conversion, working capital, and the needs of the northern regions, among other programs. Total estimated Central Bank directed credits came to 15.5 percent of GDP in 1992 and 5 percent in 1993 (Le Houerou 1995, tables A1, A2). Since repayment of these credits was often uncertain, at times they resembled subsidies.[14] While the Central Bank insisted on its autonomous right to decide to whom to issue such credits, it generally responded to requests of an interdepartmental Commission on Credits Policy, which included representatives of the Economics, Finance, Agriculture, and other ministries, as well as the Central Bank (IMF 1995, 30; Ignatev 1993; Yanovsky 1993).

Third, money was transferred by federal *off-budget funds* (the pension fund, road fund, etc.). Estimated spending by federal off-budget funds came to about 10 percent of GDP in 1992, and 8 percent in 1994. Unfortunately, information about the regional distribution of such spending has not been available. Fourth, *discretionary benefits* of various kinds (export privileges, hard currency allocations, etc.) were assigned by the central government and parliament to regions on an ad hoc basis under individual resolutions. For the first nine months of 1992, such benefits were estimated at 2.5 percent of GDP.[15] Unfortunately, no accounting is available for subsequent years.

Meanwhile, resources flowed from the regions to the center in the form of tax remittances (13.5 percent of GDP in 1992 and 9.4 percent in 1994) and payments to federal extrabudgetary funds (12.3 percent of GDP in 1992 and 9.3 percent in 1994). While VAT, corporate profit tax, and some excises were shared between the two levels at negotiated rates, personal income tax went entirely to regional budgets in 1992–93 and almost entirely to them in subsequent years. Overall, after subventions and net mutual settlements are included, the federal government ran a deficit of about 21 percent in 1992 and of about 10 percent of GDP in 1994, while the regional governments ran a surplus of 1.6 percent of GDP in 1992 and just balanced their budgets in 1994 (Le Houerou 1995, tables A1–A3).

"Winners" and "Losers": Uncovering the Pattern

The first thing that strikes an observer of the outcomes of intergovernmental tax and transfers policy in the early 1990s is the apparently huge disparity between favored and less favored regions.[16] In 1992, the average region remitted to Moscow about 60 percent of the tax revenues collected on its territory. But while Tyumen (including its two autonomous okrugs) passed on 80 percent, Tatarstan and Bashkortostan sent the federal authorities just about nothing. In 1994, a typical region remitted about 35 percent, but the rates ranged from 48 percent to zero. Meanwhile, transfers flowing in the other direction also varied widely. While many regions received no subventions at all, the Koryaksky Autonomous Okrug was supported to the tune of 50,000 rubles per capita in 1992.[17] Central investment grants that year ranged from 950 rubles per capita in Bashkortostan to 12,000 in the Far Eastern region of Magadan.

These different types of transfer might, of course, even out in the aggregate, reducing the total interregional variation. But even in the aggregate the disparities are striking. While the coefficients of variation for the different types of per capita transfers for which 1992 data were available ranged from .55 to 3.3, the coefficient of variation for aggregate center-region transfers was 1.14.[18] Total center-to-region transfers for which data were available ranged from about 1,000 rubles per capita (for Bashkortostan) to 96,000 (for Komi) in 1992. Net transfers, from which tax payments to the center have been subtracted, ranged from −58,000 rubles per capita (in Tyumen) to 64,000 rubles per capita (in Komi).

To those familiar with Russia's geography, it might not seem surprising that Tyumen paid far more in taxes to the center than it received in transfers: it is the country's leading oil-producing region. It is harder to explain, however, why the Komi Republic, Russia's fourth largest oil-producing region, would be right at the other end of the scale, with the highest net transfer *from* Moscow, or why Tatarstan and Bashkortostan, the second and third largest oil producers, would be allowed the most generous tax retention deals.

Nor are there any obvious geographical explanations. Figure 3.1 shows the 23 regions that received positive net transfers from Moscow in 1992, along with the 18 that paid the largest net tax to the center (i.e., all that paid more than 10,000 rubles per capita). While the biggest "losers" from central redistribution appear generally to lie to the west of the Urals, the 23 biggest "winners" are spread out across the whole country—from Bryansk in the west to Kamchatka in the east. There are clusters of "winners" in Eastern Siberia and the Far East, in the North Caucasus, on the Volga, and in the North. But in some cases, the biggest "winners" lie right next to the biggest "losers." Chelyabinsk Oblast in the Urals received four times as much per capita in transfers from the center as neighboring Perm Oblast. (Both paid about the same per capita in tax to the center.) Equally puzzling, Dagestan, in the North Caucasus, got to keep 56 percent of the tax collected locally, while neighboring Stavropol Krai retained only 38 percent. (At the same time Dagestan was receiving about 70 times as much in central subventions as Stavropol.)

The levels of regional government spending that these transfer flows helped finance were also highly disparate. Per capita spending by regional governments in 1992 ranged from about 7,000 rubles per capita (in Stavropol Krai) to about 85,000 (in Sakha-Yakutia). The coefficient of variation for per capita regional spending in Russia's regions was .83 in 1992, and 0.77 in 1993, com-

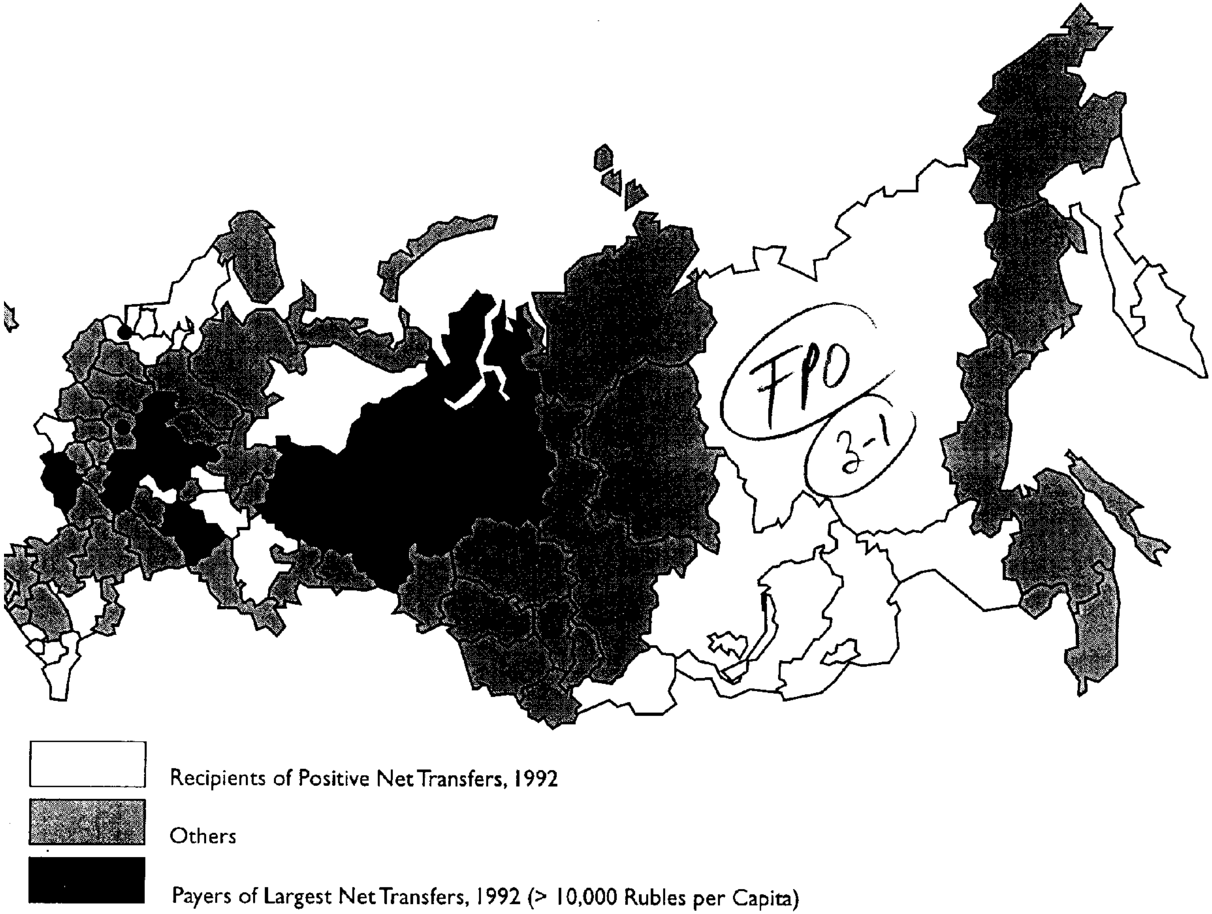

Fig. 3.1. "Winners" and "losers" from fiscal redistribution, 1992. (Based on data provided by Leonid Smirnyagin.)

pared to about .42 for per capita state-local spending in the United States in the mid-1980s (Fisher 1991, 265).[19] To compare Russia with another reforming communist order, in China the coefficient of variation for provincial per capita spending was closer to that in Russia—increasing from .66 in 1980 to .72 in 1985, while then declining to .57 in 1991 (Tong 1994, 12). But the extremes were less unequal. In China in the mid-1980s, the highest spending region outspent the lowest by a factor of about eight; in Russia in both 1992 and 1993, there was a 12-fold difference.

Possible Causes

Were these inequalities as haphazard as has often been believed? Statistical analysis suggests some regularities beneath the surface. The next two sections will demonstrate these regularities. The first step is to identify what factors might explain why some regions received larger net transfers than others. Various possibilities suggest themselves, both from the pronouncements of those in positions of power and from established theories of intergovernmental fiscal politics.

First, the pattern of net transfers might reflect particular objectives of the central allocators. Certain regions might receive more generous transfers to alleviate greater *need* or especially dire inability to pay for public services. In Western states, many government programs aim to target developmental or welfare aid to regions unable to provide basic services to their inhabitants.[20] Need has been measured in a variety of ways, some focusing on general characteristics of the community (population change, employment change, per capita income change, etc.), others focusing on particular characteristics relevant to specific federal programs (e.g., proportion of dilapidated housing, for urban renewal grants). In Russia, one element of intergovernmental transfers—subventions, and later payments from the Regional Support Fund—was explicitly designed to assist needy regions with insufficient budget resources. Such channeling of aid to less well-endowed regions would continue a practice noted in the Soviet era. Donna Bahry found that allocation of investment funding led then to “a mild form of redistribution, allotting slightly more to less developed regions than would otherwise be the case” (Bahry 1987a, 164).[21]

Yet, in 1991 an economically radical team of politicians had taken charge of the central economics ministries, led by vice premier Yegor Gaidar, with the announced goals of establishing market institutions and privatizing state enterprises. Their conception of the role of the state was rooted in the classical welfare economics tradition: interventions should promote *efficiency* (Baumol 1952; Stiglitz 1989). At times, members of this group spoke of using state fiscal policy to create incentives for rapid reform. Deputy Premier Anatoli

Chubais, for example, announced in August 1993 that financial aid to regions should be made conditional on progress in privatization (Todres 1993). Thus, a second hypothesis is that central allocators distributed revenues and tax obligations in such a way as to support efficient forms of economic organization and to stimulate *economic reform.*

Redistributive outcomes might also reflect other objectives of central allocators. These might include encouraging regional governments to improve their *tax collection* by rewarding regions that made the greatest "tax effort."[22] Or allocators might wish to support particular *economic sectors.* In Russia, two sectors (agriculture and the fuel and raw materials sector) are often accused of having disproportionate power and reaping excessive rewards from the budget and credit-allocation process.[23]

Besides the objectives of central politicians—whether social, economic, or other—fiscal outcomes might reflect differences in the capacity of regions and their leaders to lobby for aid or privileges.[24] This depends, first, on the regional leaders' degree of *access* to central officials. In the United States, two studies suggest that both city and state governments that employ a Washington lobbyist or consulting firm receive more in federal grants than those that do not (Pelissero and England 1980; Cingranelli 1984). Other scholars have noted that a city or state government's capacity to make formal applications for aid is itself an important determinant of grant receipts (Stone and Sanders 1987, cited in Rich 1989). In Russia, regions that have a permanent representative in Moscow might be expected to have greater access and thus greater success. A second mode of access believed to be important is the contact with central policymakers that comes with an official visit to the region. One might expect visited regions to have received a fiscal premium.[25] Third, regions whose representatives occupied leading roles within the parliament, whose representatives served on the budget committees, or that had a disproportionately large number of parliamentary representatives might be able to use this leverage to extract greater budget concessions.

However, lobbying capacity depends not just on getting into an official's office, but also on having sufficient *bargaining power* once one is admitted. In part, bargaining power is likely to be a simple function of the political importance of the region—populous, economically weighty regions and those with the higher administrative status of republics may find it easier to get the finance minister's attention. But in a more important sense, bargaining power depends on the ability to make credible threats to disrupt central priorities if regional demands are not met.[26] In 1992–94, the key central concerns in federal relations were defusing separatist momentum, avoiding regionwide strikes, preventing public hostility toward central incumbent politicians from reaching extreme levels, and securing the loyalty of regional leaders at moments of political crisis in Moscow.[27] The threat of a region to disrupt these aims would be more credible if the region had in fact taken disruptive action in the recent past. Such actions—strikes, separatist declarations, and so on—could credibly signal relatively high disagreement utility levels.[28] If the region's voters had signaled extreme discontent with central incumbents by voting strongly against them, this might also suggest a threat to the central regime's political future.

It is these last factors that are critical to the argument of this book. I argue that, though the center's objectives of supporting needy regions, encouraging reform, or favoring particular sectors may have been important at times, and greater access or representation at times bore fruit for the overrepresented region, the bargaining power of regions—in particular, their blackmail potential—was significant in determining the pattern of net transfers. Regions with a greater capacity and resolve to disrupt central priorities—whether economic, political, or constitutional—were able to pressure the center into providing greater benefits in the hope of preventing disruptive protests.

Explaining the Pattern

One method to assess which of the listed factors best correspond to the actual patterns of fiscal transfers in 1990s Russia is the statistical technique of ordinary least squares regression. If a factor is important in explaining the pattern of transfers, one would expect its estimated regression coefficient to be significant.

Regressions were run for a variable measuring the net center-to-region flow of transfers (net of tax remittances) for each of the years 1992, 1994, 1995, and 1996.[29] The explanatory factors included reflect the different hypotheses outlined in the previous section.[30]

As already mentioned, no comprehensive accounting of all center-region financial flows is available. The subsets of transfers for which figures were available were somewhat different in the different years. The 1992 data contained a broader range of different types of central fiscal and quasi-fiscal transfers.[31] In part because the role of quasi-fiscal transfers such as subsidized directed credits had diminished by 1994, the data for that year focus more on official budget transfer flows, as do those for 1995 and 1996. Data for central credits in these years were not available.[32]

One might expect the results of the analyses for these years to be quite different. While 1992 was the first, tumultuous year of independent statehood and radical economic reform in Russia, 1994 was a postelection year of consolidation, during which a rationalized system of center-region fiscal relations was introduced. This new system inspired high hopes. According to President Yeltsin in an interview soon after the Regional Support Fund's initiation:

> We are leaving behind forever the practice of endless haggling between the center and the regions whereby each party tries to get a bigger share.

> This has generated enormous resentment, suspicion, and abuses. Now things will be different. (*Trud* 1994)

The last two years, 1995 and 1996, were election years, and one might expect to see changes in the way fiscal transfers were allocated. That somewhat different sets of transfers were analyzed for the various years also renders it particularly unlikely that similar results would emerge by chance.

In order to avoid concluding too much on the basis of a particular incomplete selection of transfer flows, besides analyzing the aggregate flows variable I also ran regressions to analyze the pattern of allocation of particular transfer streams (e.g., investment grants, net mutual payments, special benefits) in 1992 and 1994, the years for which detailed data were available, and to explain differences in the share of total revenues that the region was permitted to retain. If the same factors appeared to influence not just the aggregate results but a range of different individual transfers in the same way, this would constitute additional evidence of their importance. For instance, one might reasonably expect efficiency criteria to influence the allocation of investment grants. But if the same criteria also explained the allocation of subventions, as well as the aggregate flow of transfers to the regions, one would be more convinced of a general efficiency-related logic not unique to the investment process but found also in other institutional subchambers of the fiscal system.

The results for the aggregate net transfers regressions are shown in table 3.3. Each coefficient listed in the table estimates the size of the change in net center-to-region transfers associated with a one-unit change in the given independent variable, holding constant all the other independent variables included in the regression. A positive coefficient suggests that an increase in the independent variable is associated with an increase in the dependent variable—for example, an early sovereignty declaration (coefficient of 19.80 in 1992 column 1) was associated with a higher net center-to-region transfer in 1992. A negative coefficient suggests a negative relationship—for example, the higher the recent vote for a pro-reform candidate (coefficient of −.33 in 1992 column 1), the *smaller* the net transfer the region received. Asterisks indicate the degree of statistical significance of the coefficient estimate: for instance, we know that for those with two or more asterisks the probability that the true coefficient is actually zero is less than .05 or one in twenty.

To show how well each hypothesis holds up when one controls for the others, I include first in column 1 regressions the estimates when the full range of explanatory factors is included. Many of the coefficient estimates, however, are not significant, indicating a lack of support for the corresponding hypotheses. I therefore also present a shorter model in column 2, which gives the estimates after all those variables have been excluded from the model for which in the first stage of analysis an *F*-test at the .10 level indicated that the variable did not

TABLE 3.3. What Explains the Pattern of Net Center-to-Region Transfers in Russia (1992–96)?

	1992		1994		1995		1996	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
A. Bargaining Power								
Recent Protest or Opposition								
Recent vote for pro-reform party or presidential candidate[a]	−.33** (.15)	−.43*** (.11)	−10.69** (4.14)	−9.06*** (2.68)	−22.77*** (8.40)	−16.65** (6.65)	−39.26* (20.40)	−26.51* (14.19)
Region declared sovereignty 1990	19.80*** (4.78)	19.55*** (2.87)						
Governor opposed Yeltsin Sept. 1993			83.55** (34.86)	72.39** (32.02)				
Governor did not actively support Chernomyrdin's OHIR 1995[b]					125.56*** (46.83)	123.06*** (43.71)	157.73 (100.73)	173.90* (91.00)
Log 1,000 man-days lost to strikes previous year	8.76*** (1.95)	8.43*** (1.58)	56.28 (36.61)		−5.07 (46.95)		39.90 (106.01)	
Political Weight								
Population	−.003* (.002)	−.002*** (.001)	−.03** (.01)	−.02** (.01)	−.05* (.03)	−.06** (.02)	−.21*** (.06)	−.21*** (.05)
Estimated economic output	−.01 (.01)		.15* (.08)		.05 (.12)		.88*** (.26)	.85*** (.17)
Republic			−78.65* (43.79)		31.41 (86.51)		26.17 (178.92)	

(continued)

TABLE 3.3.—*Continued*

	1992		1994		1995		1996	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
B. Alleviating Need								
Social infrastructure	−2.53		−2.66		4.78*	4.36*	20.79***	20.49***
underdevelopment[c]	(2.08)		(1.61)		(2.59)	(2.20)	(7.66)	(6.51)
Proportion of population	.51		23.20*		57.68**	55.01***	41.58	
under 16	(1.20)		(12.94)		(26.41)	(13.48)	(60.56)	
Proportion of population of	.04		−11.14	−26.29***	23.91	21.58**	33.17	
pension age	(.80)		(8.35)	(3.50)	(17.18)	(8.96)	(39.15)	
Profits per capita previous	4.20		−1574.03***	−1216.88***	−1.04***	−.97***	−.83***	−.76***
year	(3.96)		(238.56)	(126.00)	(.17)	(.13)	(.16)	(.12)
Est. avge. real income	.03		.31*		−1.02*	−1.22***	−4.37**	−4.33***
previous year[d]	(.03)		(.18)		(.55)	(.44)	(1.71)	(1.45)
Degrees latitude north	−.90**	−.86***	−3.33		15.33**	12.60**	12.11	
	(.36)	(.25)	(3.68)		(6.73)	(5.86)	(14.88)	
C. Other Central Objectives								
Advanced economic reform[e]	−2.11	−1.82*	7.83**	6.95**	7.91		23.97	30.76**
	(1.40)	(1.09)	(3.68)	(3.24)	(7.50)		(16.13)	(13.92)
Percent of work force in	−.48	−.61***	−4.02		−4.92		−20.70	
agriculture	(.31)	(.18)	(3.60)		(6.99)		(17.10)	
Region's share in RF raw	−1.57***	−1.41***	5.24	11.88***	−8.47		63.39***	63.43***
materials output	(.48)	(.25)	(4.69)	(3.83)	(9.91)		(22.99)	(19.42)
Index of "tax effort"[f]	−5.62		−35.48		−117.79	−130.65**	−82.61	−105.80
	(6.49)		(40.05)		(72.62)	(62.52)	(88.26)	(78.22)

D. Access and "Pork"								
Visited by President that year[g]	−2.13		−15.27				442.79***	402.27***
	(3.39)		(33.75)				(151.28)	(137.63)
Visited by Prime Minister that year	−.85		52.48	68.37*				
	(4.53)		(40.08)	(36.15)				
Region had member on parliament's budget committee[h]	2.15							
	(4.54)							
Chairman of parliament's budget committee (or deputy) from region			−9.82		90.26		−406.95	
			(65.05)		(132.93)		(294.53)	
Chairman (or deputy) of one house of parliament from region			9.77		−73.50		−33.09	
			(54.36)		(105.66)		(205.45)	
Parliament deputies per capita elected in single-mandate districts[i]	−.87		99.03**	138.67***	181.42***	191.59***	6.67	
	(1.25)		(42.65)	(32.47)	(53.52)	(44.04)	(170.06)	
Region had perm. rep. in Moscow	1.05		−50.94	−72.49**	97.28		−125.57	
	(3.57)		(32.90)	(29.87)	(80.27)		(197.02)	
Constant	57.26	75.73***	128.22	854.68***	−2050.49**	−1768.98***	256.66	2086.48***
	(49.07)	(16.36)	(470.46)	(115.64)	(984.69)	(621.01)	(2445.20)	(320.39)
R^2	.78179	.74182	.88955	.86193	.91434	.90690	.89250	.88501
Adj. R^2	.67534	.70740	.84095	.83966	.88202	.89039	.84643	.86122
N	61	68	72	72	73	73	70	70

Note: OLS Regression Coefficients; dependent variable is center-to-region fiscal transfers net of region-to-center tax remittances, in 1,000 rubles per capita; standard errors in parentheses. Column 2 contains all variables from

(continued)

column 1 that significantly improve the fit of the regression, as judged by an *F*-test at the .10 level. One extreme outlier, the Koryaksky Autonomous Okrug, was excluded from the data for the 1994 regressions since its value on the dependent variable was more than five standard deviations greater than the mean. The Koryaksky Autonomous Okrug, a sparsely inhabited North-Eastern Territory of 35,000 inhabitants, received more than 6 million rubles per capita in 1994 central transfers.

[a]1992: vote for Yeltsin in 1991 presidential election; 1994 and 1995: vote for Russia's Choice in 1993 parliamentary election; 1996: vote for Yabloko or Russia's Choice in 1995 parliamentary election.

[b]Variable = −2 if the governor himself ran on the "OHIR" list in 1995 election; −1 if he did not but a high official from the regional administration did; 0 if neither the governor nor a high official agreed to be on the list.

[c]In each case, an index of social infrastructure underdevelopment (see app. B for derivation) was tried, as well as the elements of this index, and some additional indicators of social infrastructure underdevelopment. The one most significant was used in the final specification. 1992: index; 1994: telephones (or access to them) per 100 urban families in 1992; 1995: telephones (or access to them) per 100 urban families 1995; 1996: doctors per 100,000 residents 1994. Variables adjusted so that high value always indicates underdevelopment.

[d]In 1994–96 regressions, two specifications were tried (1) average monthly money income previous year as percent of cost of 19 basic food commodities, and (2) average monthly money income previous year as percent of subsistence minimum. The more significant one was chosen. 1994: (1); 1995: (2); 1996: (2). Data were only available for (1) in 1992. In this case, same year income was used.

[e]In each case, an index of advanced economic reform was tried first (see app. B for derivation). The elements and some other indicators of advanced economic reform were tried and used instead if more significant. 1992: index; 1994: percent of 285 goods with controlled prices; 1995: private farms per 1,000 rural inhabitants; 1996: percent of 285 goods with controlled prices. Variables adjusted so that high value always indicates advanced economic reform.

[f]Constructed by method of Roy Bahl (1994).

[g]1996: visited by president during first six months leading up to first round of presidential election.

[h]Region had representative on Supreme Soviet Commission on Budgets, Planning, Taxes and Prices.

[i]1992: Supreme Soviet representatives per million inhabitants; 1994–96: State Duma representatives elected in single-member constituencies per million regional inhabitants.

$^{*}p < .10$ $\quad$ $^{**}p < .05$ $\quad$ $^{***}p < .01$

significantly improve the fit of the regression. The models in column 2 thus represent estimates with less "noise" coming from probably unimportant factors.

What do the regressions show? First, they identify a pattern that is far less haphazard than casual observers had assumed. In each case, a small number of theoretically plausible factors (those included in the column 2 models) can explain about three-quarters of the variation in net transfers. The same or similar factors are often significant in more than one year.

The regressions provide some powerful evidence for the argument about fiscal appeasement advanced at the beginning of the chapter. Those regions that had demonstrated discontent with the central regime—by voting against Yeltsin or his pro-reform allies, declaring sovereignty, staging major strikes, or not supporting Yeltsin and his allies at moments of heightened political competition—did better in the fiscal transfers game than their more complaisant counterparts. The ability and resolve to disrupt central priorities served as a powerful lever for extracting benefits.

This pattern showed up in several ways. First, net transfers were significantly related to regional voting patterns in previous years. The larger the regional vote *against* leading pro-reform parties or candidates in the most recent national election, the more generous was that region's subsequent allocation. This result is highly significant in 1992, 1994, and 1995, though only marginally so in 1996 (at the .07 level in a two-tailed test).[33] These results are still significant controlling for the full range of other plausible determinants of fiscal transfers. For instance, anti-Yeltsin regions did not receive higher transfers because they tended to be less developed, because they had greater social need, or because their leaders had better access to the central decision makers (the results hold *controlling* for indicators of each of these alternative hypotheses).[34]

Shunning the incumbent pro-reform parties and candidates in national elections was not the only way in which regions could win themselves more generous fiscal treatment. More overt challenges to central order—whether by mass or elite—also earned a premium. It is difficult to construct indicators of such protest actions, but I was able to devise a number of measures relevant to the different years. The budget negotiations of 1992 followed some of the most turbulent years in Russia's recent history. In 1990, a series of regions within Russia, most ethnically distinct, had declared themselves sovereign in what became known as the "parade of sovereignties" (see chapter 2). Their claims represented an obvious challenge to the existing constitutional order. The following year, 1991, had seen a wave of strikes mobilize workers in different regions of the country to demand both economic and political changes. Both of these actions turn out to be closely related to the subsequent pattern of fiscal transfers. If a region's leaders had been among those who declared sovereignty in the first outburst of demands in late 1990, their province received nearly 20,000 rubles per inhabitant more in additional transfers and tax breaks in 1992—more than one standard deviation in the level of net transfers. Regions that had staged major strikes in 1991 also received a significant payoff the next year.[35]

That central policy had yielded to such blackmail tactics in 1992 would not surprise Russia's leaders, who had been intensely aware of the precariousness of their position and their lack of resources to deter or repress revolt. But by 1994, with the dissolution of the old parliament and enactment of a presidential constitution, the government seemed to have greater ability to resist regional pressures. The new Regional Support Fund had an explicit mandate to target fiscal aid to those regions with greatest need. Did the logic governing central redistribution shift between 1992 and 1994 from one based on the politics of protest to one based on economic efficiency or social need?

The regressions in table 3.3 suggest that in later years threats to central order remained a powerful lever. For 1994, an indicator of loyalty to the Russian president is provided by the responses of governors to Yeltsin's decree dissolving the parliament in September 1993. Almost all the heads of regional executives made some public statement at that time, either supporting the president, indicating a neutral position between president and parliament, or, in 15 cases, explicitly opposing Yeltsin. As history records, the president ultimately won this particular test of wills, dissolved the old parliament, and confirmed the ground rules by which its successor was elected.

One might expect the loyal governors to receive a reward in the 1994 budget. In fact, just the opposite occurred. Regions where the governor had supported Yeltsin during his critical showdown with the parliament—or at least remained neutral—seem to have come out *worse* financially than those whose leaders overtly opposed him. Overall, supporting Yeltsin at his moment of vulnerability or remaining neutral appears to have cost a regional governor about 70,000 rubles per inhabitant in net transfers (about one-eighth of a standard deviation). Once again, aggressive anticenter statements were met with central generosity.

Another indication of governors' attitudes toward the central "party of power" can be gauged from whether the governor chose to join Prime Minister Viktor Chernomyrdin's "Our Home is Russia" bloc, set up in early 1995. Those governors who chose *not* to join OHIR or to encourage a deputy to join thus sent a clear message about where they stood politically and where their loyalties lay. This message was apparently worth a considerable sum of budget money. Those governors not affiliated with the prime minister's party received larger net transfers for their region in 1995 and possibly in 1996 (the latter result is significant at only $p < .07$). Again, all of these results hold controlling for the full range of possible alternative causes (except for 1996, where the significance of a governor not supporting "Our Home is Russia" falls to $p < .15$ when the full range of variables is included).

Furthermore, as tables 3.4 and B1 (in appendix B) show, these regional discontent variables were not just significant in explaining the aggregate pattern of net transfers: they were also significant predictors of receipts from several of the transfer streams taken separately. In these tables, different transfer streams and the share of tax revenue retained are regressed separately on the independent variables, using the same procedures as before. The lower the vote for Yeltsin in 1991, the higher the share of tax revenue that a region was able to retain, and the higher were central transfers per capita. In particular, anti-Yeltsin regions seem to have received significantly higher special benefits conferred by discretionary presidential or government decrees. An early sovereignty declaration was associated with both a higher share of tax revenues retained in the region and significantly higher central transfers—in particular, higher special benefits and transfers from the government's reserve fund. (These were compensated slightly by lower subventions in the sovereignty-declaring regions, but the positive benefit far outweighed this.) More man-days lost to strikes were followed in 1992 by higher transfers—though they were actually associated with a smaller retained share of total tax revenues (perhaps the regions most likely to strike were those that traditionally retained a smaller share of revenues). The increased transfers came in the form of higher investment grants, special benefits, payments from the government reserve fund, and possibly also larger central credits.

In 1994, regions that had returned a lower vote for the progovernment Russia's Choice bloc the previous year received higher federal transfers, in particular from the Regional Support Fund. Strikes by this point did not have any clear effect, though greater strike losses may have been associated with larger Regional Support Fund transfers (significant at $p < .08$). Governors who opposed Yeltsin at his moment of weakness in the September 1993 confrontation with parliament were permitted to retain about 4 percent more of total tax revenues in their region. One interpretation might be that this represented not so much a central policy of appeasement as a central inability to implement *any* policy. It might be argued that such governors were not beneficiaries of central largesse so much as exploiters of central weakness, readier than their colleagues to cut tax payments unilaterally. Such ambiguities are inherent in any policy of appeasement, which is of essence reactive. But there is also some evidence of a central appeasement policy of commission as well as omission. The recalcitrant governors were rewarded with greater direct payments from the Regional Support Fund (significant, however, only at $p < .10$, in a two-tailed test). Taken together, these findings reinforce the story told so far of the importance of regional discontent—made credible both by elite and mass past actions—in extracting greater federal allocations.[36]

The significance of an early sovereignty declaration in the 1992 regressions raises additional questions. Was it the declaration itself that elicited central aid, by credibly signaling resolve on the part of the region's leadership to challenge the constitutional status quo? Or was it some other characteristic of

TABLE 3.4. What Explains the Pattern of Particular Transfers and of Regional Tax Retention, Russia

	Regional Tax Share		Central Transfers		of which: Subventions	
	(1)	(2)	(1)	(2)	(1)	(2)
A. Bargaining Power						
Recent Protest or Opposition						
Vote for Yeltsin 1991	−.35**	−.35**	−.16	−.28**	.02	
	(.16)	(.14)	(.18)	(.12)	(.03)	
Region declared sovereignty 1990	15.15***	13.66***	14.29**	13.99***	−.90	−1.49***
	(5.15)	(3.59)	(5.80)	(3.21)	(.84)	(.54)
Log (1,000 man-days lost to strikes 1991 + 1)	−4.91**	−4.75**	10.97***	8.86***	.50	
	(2.10)	(1.90)	(2.37)	(1.82)	(.36)	
Political Weight						
Population	.003*	.004***	−.003	−.002**	−.00*	
	(.002)	(.001)	(.002)	(.001)	(.00)	
Estimated economic output	.01*	.01***	−.01		.00	
	(.01)	(.00)	(.01)		(.00)	
B. Alleviating Need						
Social infrastructure underdevelopment	−.76		−1.88		.31	
	(2.23)		(2.52)		(.38)	
Proportion of population under 16	3.25**	3.52***	−.98		−.32	
	(1.29)	(1.00)	(1.46)		(.22)	
Proportion of population of pension age	.93	1.18*	−.52		−.35**	−.20***
	(.86)	(.64)	(.97)		(.15)	(.05)
Profits per capita 1991	−5.14		5.75		−.83	−.80**
	(4.26)		(4.79)		(.73)	(.32)
Est. avge. real income 1992	.03		.02		−.01	
	(.03)		(.04)		(.00)	
Degrees latitude north	.09		−.92**	−.58**	−.04	
	(.38)		(.43)	(.27)	(.07)	
C. Other Central Objectives						
Advanced economic reform	−.64		−2.10		−.04	
	(1.51)		(1.70)		(.26)	
Percent of work force in agriculture	−.61*	−.58**	−.45	−.81***	.09	.07**
	(.33)	(.27)	(.38)	(.21)	(.06)	(.03)
Region's share in RF raw materials output	−1.58***	−1.68***	.09		.12	
	(.52)	(.37)	(.59)		(.09)	
Index of "tax effort"	4.96	−2.23	−6.53		.95	
	(6.99)	(4.59)	(7.86)		(1.21)	
D. Access and "Pork"						
Visited by President	−7.74**	−7.84**	−.01		.70	
	(3.65)	(3.21)	(4.11)		(.63)	
Visited by Prime Minister	3.14		−3.05		.15	
	(4.88)		(5.49)		(.84)	

1992? (OLS regression coefficients)

Budget Investment		Government Reserve Fund		S. Soviet Reserve Fund		Special Benefits		Credits	
(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
.00		.001		−.00		−.20	−.23**	.02	
(.03)		(.001)		(.00)		(.18)	(.11)	(.02)	
.05		.07*	.07**	−.01		14.65**	12.95***	−.00	
(1.06)		(.04)	(.04)	(.03)		(5.74)	(3.18)	(.60)	
.82*	.79**	.08***	.07***	.01		9.15***	6.67***	.44*	.37*
(.46)	(.35)	(.02)	(.02)	(.01)		(2.34)	(1.77)	(.25)	(.19)
−.00	−.00**	−.00**	−.00***	−.00		−.00		−.00	
(.00)	(.00)	(.00)	(.00)	(.00)		(.00)		(.00)	
−.00		−.00**	−.00***	−.00		−.00		−.00**	−.00*
(.00)		(.00)	(.00)	(.00)		(.00)		(.00)	(.00)
.43		−.04**	−.04***	.02		−2.63		.12	
(.48)		(.02)	(.01)	(.01)		(2.49)		(.26)	
−.05		.02**	.01***	−.01		−.36		−.28*	−.29***
(.28)		(.01)	(.00)	(.01)		(1.44)		(.15)	(.07)
−.24	−.21***	.01		−.01**	−.00***	.29		−.22**	−.19***
(.19)	(.06)	(.01)		(.01)	(.00)	(.96)		(.10)	(.05)
1.00		.05	.06**	-.00		5.75		−.13	
(.92)		(.03)	(.03)	(.02)		(4.75)		(.50)	
−.00		.00		.00		.03		.00	
(.00)		(.00)		(.00)		(.04)		(.00)	
−.05		−.01***	−.01***	.00*	.00***	−.81*		−.03	
(.08)		(.00)	(.00)	(.00)	(.00)	(.43)		(.04)	
−.32		−.02	−.02	.02*	.01*	−1.64		−.15	
(.32)		(.01)	(.01)	(.01)	(.01)	(1.68)		(.18)	
−.02		−.00		.00*	.00***	−.51	−.49***	−.02	
(.07)		(.00)		(.00)	(.00)	(.37)	(.18)	(.04)	
.09	.11*	.00		−.00		−.31		.19***	.18***
(.11)	(.06)	(.00)		(.00)		(.58)		(.06)	(.04)
−1.33		−.05	−.04	.08*		−7.37		1.21	
(1.51)		(.06)	(.04)	(.04)		(7.79)		(.82)	
1.89**	1.56***	.00		.02		−2.89		.36	
(.79)	(.58)	(.02)		(.02)		(4.07)		(.43)	
1.57		−.03		−.02		−4.66		−.06	
(1.06)		(.04)		(.03)		(5.44)		(.57)	

(continued)

TABLE 3.4.—*Continued*

	Regional Tax Share		Central Transfers		of which: Subventions	
	(1)	(2)	(1)	(2)	(1)	(2)
Region had member on parliament's budget committee	−.39 (4.89)		.90 (5.51)		−.52 (.84)	
SS deputies per capita	−1.49 (1.35)		−.08 (1.52)		.83*** (.23)	.97*** (.13)
Region had perm. rep. in Moscow	−.47 (3.85)		−.10 (4.33)		.50 (.66)	
Constant	−36.86 (52.84)	−46.57 (33.62)	105.53* (59.48)	68.94*** (17.93)	17.13* (9.11)	4.64*** (1.49)
R^2	.63778	.59415	.60037	.52542	.69603	.72356
Adj. R^2	.46109	.50830	.40542	.48092	.55129	.70382
N	61	63	61	70	62	75

Note: standard errors in parentheses; column 2 contains all variables from column 1 which significantly add to the fit of the regression, as judged by an F-test at the .10 level.

the more separatist regions? Most of these were republics, with some degree of non-Russian ethnic population. Further analysis suggests that a region's ethnic balance, per se, played little role. Neither a measure of the regional concentration of non-Russians nor one measuring the proportion of inhabitants who were of the region's specific titular nationality was at all significant when added to the regression.[37] (In both cases, sovereignty declarations remained significant.) It is harder to separate out the effects of sovereignty declarations from those of administrative status of the region because of the high overlap between republic status and an early sovereignty declaration. (Among the 22 regions that declared sovereignty in 1990 were 13 of the 16 republics then in existence, 8 autonomous okrugs, and one ordinary oblast, Irkutsk.)[38] Because of the high overlap between these two variables, they are not included together in the regressions reported. If a dummy variable for republic status *is* included alongside the sovereignty declaration variables in model 1, the republic status variable is completely insignificant (at $p = .79$); because of the high overlap, the sovereignty declaration variable's significance drops to the .19 level and its estimated coefficient falls from 19.8 to 16.7. If the republic status dummy is substituted for the sovereignty declaration variable, it is less significant and the regression's adjusted R^2-value falls. In short, if one knows that a region declared sovereignty in 1990, knowing its ethnic makeup or administrative status reveals little more information about its access to fiscal benefits in 1992.

How large were these effects? How large a payoff could a region earn through such gestures of disenchantment? One can gauge this by comparing the estimated impact of fiscal factors with the apparent impact of other factors. In

Budget Investment		Government Reserve Fund		S. Soviet Reserve Fund		Special Benefits		Credits	
(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
−.78		.00		−.02		2.07		.20	
(1.06)		(.04)		(.03)		(5.45)		(.57)	
.02		−.02	−.02**	.04***	.04***	−.65		−.22	
(.28)		(.01)	(.01)	(.01)	(.00)	(1.50)		(.16)	
−1.72**	−1.97***	−.05		.00		1.30		−.17	
(.83)	(.53)	(.03)		(.02)		(4.29)		(.45)	
13.77	9.06***	−.12	.30	.13	−.21**	61.02	19.03**	14.38**	13.57***
(11.43)	(1.27)	(.43)	(.19)	(.31)	(.10)	(58.89)	(7.64)	(6.18)	(2.79)
.49643	.39482	.67025	.62313	.76344	.73119	.52281	.41388	.55056	.43137
.25664	.34142	.51323	.54340	.65079	.71019	.29004	.37836	.33133	.38763
62	74	62	63	62	69	61	70	61	70

*$p < .10$ **$p < .05$ ***$p < .01$

1992, for instance, regions in the south received considerably more in net central transfers than their counterparts to the north. For each 10 degrees latitude further south a region's capital was located, it received about 8,600 rubles per capita more in net transfers (or a little more than half a standard deviation; see table 3.3, 1992, column 2). But for each 10 percent of the vote that had gone to candidates *other* than Yeltsin in 1991, the region could expect to get about 4,300 rubles per capita more—and an early sovereignty declaration was associated with more than 19,000 additional rubles per capita in net transfers. In other words, a republic like Karelia, about 7 degrees north of Moscow, might expect to get about 6,000 rubles per capita less than the country's capital in net transfers because of its northerly location. But this loss would be completely wiped out if the total vote for Yeltsin the previous year in Karelia had been 14 percentage points lower than in Moscow (in fact it was nearly 19 points lower). If the leader had declared sovereignty in 1990 (in this case, he had), this would not just compensate for the republic's location but net it an additional 13,000 rubles per capita.

In 1994, more profitable regions received smaller net transfers than less profitable ones. For every 1,000 rubles per capita in profits earned in the region the previous year, net transfers in 1994 were about 1,200 rubles per capita lower. Bryansk Oblast in 1993 had profits per inhabitant nearly 60,000 rubles higher than Tomsk Oblast and could expect therefore to get about 72,000 rubles per capita *less* in net 1994 transfers. However, if the governor of Bryansk had the nerve to oppose Yeltsin in his September 1993 conflict with the parliament (he did), or if the vote for Russia's Choice in Bryansk had been 8 percentage points lower than in Tomsk (in fact it was 10 points lower), this would more than make up the difference (it did: Bryansk actually received about 177,000 rubles per inhabitant *more* than Tomsk).

While public expressions of discontent or disloyalty continued to earn regions a fiscal premium over the years, the relative role of different kinds of protests changed in some interesting ways. One notable difference is the weakened influence of the strike weapon. Whereas 1991 had been the height of a wave of labor mobilization, with political strikes frequently shutting down coal mines and other enterprises, 1993 saw a dramatic decrease in the number of strikes and in their impact—the total level of strike losses in that year was only *one-tenth* of that in 1991. By 1994, the relationship between strikes and transfers had disappeared. It is tempting to view the replacement of strikes by voting and political declarations as an institutionalization of the politics of protest, perhaps comparable to the institutionalization of conflict observed in other cases of democratization (see Rustow 1970). However, the change may merely have reflected the particular circumstances in 1994–96, a time at which frequent elections provided clear measures of regional opinion, and labor mobilization had abated for a variety of reasons.

At the same time, the disaggregated regressions of table 3.4 suggest that different pressure tactics may have worked best in different institutional settings. Since disbursements from the government's reserve fund were controlled, obviously enough, by the government, while transfers from the Supreme Soviet's reserve fund were decided by the parliamentary leadership, differences in the pattern of allocation from these two sources may indicate different priorities of the institutions' leaders. While strikes and sovereignty declarations both led to significantly higher government reserve fund payments in 1992, neither had a significant impact on Supreme Soviet fund transfers. Thus, these signals of discontent seem to have been more effective at blackmailing the government than at pressuring parliament.

The tables also reveal much about the context in which such political factors operated. Besides public expressions of discontent, certain other variables appeared to earn regions larger net transfers. Were "needy" regions favored? Those recording higher profits per capita (and thus lower need in one sense) did receive lower net transfers. This is not surprising since higher profits would mean larger payments of profit tax to the federal budget and thus automatically smaller *net* transfers from the center. Other indicators of "need" tell a changing story. While there was just about no significant evidence of net transfers favoring regions with greater social need in 1992 and 1994 (when the larger the elderly population, the *smaller* were net transfers), in 1995 and 1996 fiscal benefits *did* go disproportionately to regions with greater evidence of need. Regions with a less developed social infrastructure (poorer provision of telephones or doctors) received significantly larger net transfers in 1996 and (marginally) significantly larger net transfers in 1995. In 1995, regions with larger dependent populations of old and young received more, as did regions further north facing harsher climatic conditions. In both years, regions where real incomes were lower enjoyed significantly higher net transfers. Such results suggest a trend toward greater use of transfers to alleviate pockets of hardship or underdevelopment.

Particularly interesting are the disaggregated regressions for transfers under the Regional Support Fund in 1994, its first year (see table B1 in appendix B). Did it successfully channel funds to regions in greatest need? I included dummy variables here to capture the explicit criteria for allocation under the Fund—whether or not the region had been classified as "needy" or as "especially needy."[39] "Especially needy" regions *did* receive significantly larger fund transfers—on average about 60,000 rubles per capita, including additional VAT exemptions (see table B1).[40] However, political factors also show up, even in this area designed to isolate allocation decisions from the pressures of politics. The higher the vote for Russia's Choice in 1993, the lower the amount received even by "needy" and "especially needy" regions under the Fund in 1994.[41] Established precisely to remove the appearance of injustice and illogicality, the Fund appeared to have achieved only a partial success in the first year. Its criteria, while significant, were evidently supplemented in their implementation by the political rationales of the past.[42]

In both 1994 and 1996, regions that were more advanced in economic reform received significantly larger net transfers, perhaps suggesting that rewarding faster reform was another motivation of central policymakers. (However, that regions received these funds in 1994 apparently in the form of direct transfers from the Regional Support Fund—an unlikely sponsor of economic reforms—raises the possibility that this result reflects some other correlated factor.) While both agricultural and raw-materials-producing regions fared worse than average in 1992, the raw-materials-producing regions received larger net transfers in 1994 and 1996, suggesting that they benefited not just from economic reforms but also from state aid.[43] It is tempting to read into the emerging fiscal payoffs to raw materials regions evidence of the political bargain struck from 1994 on between the Yeltsin-Chernomyrdin regime and the oil and gas barons. One way in which the administration partially compensated fuel and energy enterprises for continuing to supply insolvent clients and thus forestalling political crises was to temporarily tolerate high rates of nonpayment of federal taxes by these energy sector firms (see Treisman 1998a). Such nonpayment of taxes to the federal budget would increase the region's net fiscal transfer.

With one exception, I did not find much evidence that access to central officials or parliamentary pork-barrel politics influenced the pattern of allocation. Having a permanent representative in Moscow, a representative on the parliament's budget committee, a representative serving as budget committee chair or deputy chair, or a representative serving as speaker or deputy speaker of parliament did not yield significantly greater net transfers. These results are surprising because the conventional wisdom paints Russian politics as a murky world of backroom bargains, in which access and contacts are crucial and political positions are used to milk cash from citizens and the state. Considerable evidence, both judicial and anecdotal, suggests a high degree of corruption and favoritism in the allocation of state benefits (see, e.g., Treisman 1992, 1995). It is possible that this is, in fact, true of fiscal allocation—the contacts necessary may be far less formal than merely having a permanent representative in Moscow or being visited by a high official.[44] But the evidence was harder to find.

The one major exception, though, is striking. Those regions that Yeltsin personally visited during the first six months of 1996, as the presidential campaign unfolded, received more than 400,000 rubles per capita more in net transfers that year (about one-eighth of a standard deviation). Previous visits by high officials had not been associated with discernible outpourings of cash—but evidently presidential election years are somewhat different.[45] Though evidence that parliamentary pork-barrel politics reshaped the overall results of allocation is scanty, such factors did appear to influence at least one particular transfer stream. Regions lucky enough to have a representative serving as chair or deputy chair either of one of the parliamentary budget committees or of one house of parliament did receive a significantly higher allocation of investment funds in 1994. Perhaps this is the preferred channel for such parliamentary handouts.

Nevertheless, the opportunities for wheeling and dealing by well-placed parliamentarians seem somewhat dwarfed by the sheer power of numbers. Regions that had more representatives per capita in the State Duma because of having single-member constituencies with smaller populations received significantly larger net transfers in 1994 and 1995.[46] In 1994, these included direct payments from the regional support fund and possibly also from net mutual payments. Regions represented by the chairman of one of the houses of parliament or his deputy could expect to receive about 55,000 rubles per capita more in investment grants in 1994 (table B1). But for every additional representative a region had per million inhabitants, it could count on nearly 140,000 additional rubles per capita in net transfers (see table 3.3). To have one extra deputy per million inhabitants would apparently help a region more in extracting benefits than having one of the most senior parliamentary leaders in its delegation.[47] At the same time, less populous regions, which would tend to have greater proportional influence in government and in the Council of Federation because of their entitlement to a minimum number of representatives, received significantly larger net transfers in all years, and in particular larger mutual payments in 1994.[48]

These results may suggest a rather more open and mechanical system of lobbying than would be consistent with the conventional view of long-established contacts, backroom favors, and individualized corruption. Tiny, sparsely inhabited territories are represented officially at central meetings by a governor who has most of the same formal rights as the leaders of densely populated urban centers. Part of a region's benefits may simply stem from this access and formal consultation. If so, these benefits would go much further in per capita terms in the less populated regions. The parliamentary variable suggests that the sheer number of deputies a region had in the State Duma increased the amount that they could together extract. Regions that had more deputies per capita received more rubles per capita. If correct, such an interpretation would imply a surprisingly unstructured and egalitarian system of power in the parliament and in region-center relations.

From accounts of participants, the competition involved in lobbying parliament for budgetary benefits for a particular region is intense. Ramazan Abdulatipov, the chair of the upper house from 1990–93 and then a Federation Council deputy from Dagestan from 1994–95, argued that such lobbying was largely ineffective. Even though parliament voted on the budget, he said, the complicated process of getting legislation passed made it very difficult for deputies to sneak in special benefits for their regions.

> I tried myself to lobby on behalf of Dagestan during voting on the budget for 1993. I had one article on aid to Dagestan. I succeeded in getting the organizers to include it in a block of 100 articles which were supposed to be voted on together, as a package. But then somebody found out about it and started arguing from the microphone—why should Dagestan be favored? There is also lobbying from that side.[49]

As a result, parliamentary leaders often sought to extract localized benefits through the executive branch rather than through their own institution.

In short, these results suggest a consistent logic. While other factors also help to explain the outcomes of central allocation, the politics of regional appeasement played an important role. Regions where the population or leadership had recently expressed opposition toward the central regime fared particularly well in the division of central largesse in the early 1990s. Challenging Moscow—whether by elite declaration, mass industrial action, or public voting—paid off far better than complaisance.[50] The regional politics of protest appears to have been richly rewarded.

Changing Patterns

So far, I have analyzed the relationship between regional characteristics and absolute levels of fiscal transfers. But an equally interesting question is whether we can see the same effects in short-run *changes* in the level of fiscal transfers. The most protest-prone regions may receive greater benefits year after year. But does an increase in the level of hostility toward the central regime in a particular year translate into an increase in central funds?

This is hard to test systematically given the limited data available. Nevertheless, the evidence does support such a hypothesis. An estimate of net center-region per capita fiscal transfers for 1988, as a percentage of total revenue collected in the region, is available (see Dmitrieva 1996, 31–32). Though comparing this directly to the net transfer figures for 1992 (expressed here as a percentage of total revenue collected regionally) is problematic, the relative ranking of regions in terms of their net gains or losses from fiscal redistribution can be compared to the 1992 rankings. (The 1992 net transfers aggregate variable contains a wider range of different types of fiscal flows—largely because of the increasing significance of these flows after the perestroika changes already discussed.) The size and direction of change in the ranking of regions between 1988 and 1992 is instructive. While some regions shot up the scale of central redistributive priorities, others sank into neglect. The number falling was about the same as the number rising. While one region dropped 53 places in the rankings (Novosibirsk Oblast), another rose 60 places (Tatarstan).[51]

Ideally, one would want to see how such changes in redistributive ranking relate to *changes* in plausible independent variables—separatist activism, voting, access, and so on. Lack of data makes this just about impossible. Yet, since overt anticenter protests essentially began in the years after 1988, it may be reasonable to take the initial (1990–91) readings as an indicator of change. I there-

TABLE 3.5. Change in Ranking of Regions in Terms of Net Central Transfers, 1988–92

	(1)	(2)
A. Bargaining Power		
Recent Protest or Opposition		
Vote for Yeltsin in 1991 pres. election	−.11	
	(.21)	
Declared sovereignty by Jan. 1991	15.91**	19.22***
	(6.92)	(4.10)
Log man-days lost to strikes, 1991	7.94***	7.40***
	(2.91)	(2.24)
Political Weight		
Population	−.00	−.00***
	(.00)	(.00)
Estimated economic output per capita	−.00	
	(.01)	
B. Alleviating Need		
Social infrastructure less developed	4.52	
	(3.06)	
Profits per capita 1990	4.67	
	(15.13)	

TABLE 3.5.—*Continued*

	(1)	(2)
Percent of population under 16	1.79	2.28***
	(1.77)	(.61)
Percent of population of pension age	.15	
	(1.34)	
Estimated real income 1992	.02	
	(.05)	
Degrees latitude north	−1.06*	−.75**
	(.55)	(.36)
C. Other Central Objectives		
Index of advanced pace of economic reform	−3.51*	−3.14**
	(2.03)	(1.56)
Index of region's effort at tax collection	−5.01	
	(7.74)	
Percent of work force in agriculture	−.86*	−.56**
	(.49)	(.25)
Share of RF total raw materials output	−1.13	−.87**
	(.79)	(.40)
D. Access and "Pork"		
Region had representative on parliament's budget commission	−2.04	
	(6.64)	
Representatives per capita in Congress of People's Deputies	1.19	
	(1.80)	
President visited region 1992	3.88	
	(4.85)	
Prime Minister visited region 1992	4.99	
	(6.63)	
Region had permanent representative in Moscow	3.95	
	(5.20)	
Control Variable: 1988 Ranking	.79***	.80***
	(.16)	(.08)
Constant	−5.08	−33.93
	(71.70)	(30.32)
R^2	.74629	.72683
Adjusted R^2	.61309	.68516
N	61	68

Note: standard errors in parentheses; column 2 contains all variables from column 1 which significantly add to the fit of the regression, as judged by an F-test at the .10 level. A change in rank from 20th to first is classified as a *rise* of 19, etc.

$^*p < .10$ $^{**}p < .05$ $^{***}p < .01$

fore look for a relationship between declaring sovereignty early and change in subsequent redistributive rank. The hypothesis is that regions that declared sovereignty would tend to rise in the center's redistributive priorities relative to those that did not.

As can be seen from table 3.5, the same bargaining power factors that predicted a high relative level of net center-region transfers in 1992 also predicted a big rise in the redistributive rankings between 1988 and 1992. Regions that declared sovereignty in the first wave rose on average almost 20 places. Strikes also led to a rise in a region's rank on the list of the center's redistributive priorities. Apart from this, less populous and less resource-rich regions became relatively more favored by central policy, and the pattern exhibited strong regression to the mean. Those regions ranked higher tended to drop more subsequently, and those that started lower tended to rise.

What about the subsequent change? Such a result might follow from a one-time shift of priorities at the beginning of Russia's independence, a durable recasting of the balance between regions' redistributive positions. Reasonably comparable data exist for the main budget transfer items for 1993 and 1994, making possible analysis of the nature of change in the pattern of redistribution between these two years. Unfortunately, constructing indicators of the change in the degree of separatist assertiveness of regions during 1993–94 is even more difficult than in the previous case. The most assertive regions had declared sovereignty months or years before, and no ready way to measure subsequent increments in assertiveness suggested itself.

However, measuring the change in mass voting patterns is somewhat easier, since roughly comparable elections or referenda were held at convenient intervals. Though no two elections in a country without a structured party system are directly comparable, a rough measure of the change in support for Yeltsin and his allies can be formed from the 1991 presidential and 1993 parliamentary election results. A variable was constructed measuring the difference between the vote for the three most pro-reform parties in the December 1993 election (Russia's Choice, the Russian Movement for Democratic Reform, and Yabloko) and the vote for Yeltsin in June 1991. Based on the previous analysis, we would expect a negative relationship between the change in the level of pro-reform voters and the subsequent change in fiscal transfers—a region where support for reformers was dropping fastest would get the largest increases in redistributed cash.

Bivariate correlations suggest exactly such a relationship with the change in transfers and net transfers between 1993 and 1994. The correlation between the change in pro-reform votes (1991–93) and the change in central transfers (1993–94) was $-.21$, significant at $p < .05$; and the correlation between the change in pro-reform votes and the change in *net* central transfers (from which tax remittances have been subtracted) was $-.40$, significant at $p < .001$. Relatively larger drops in regional support for Yeltsin and his allies were rewarded with larger increases in central largesse the next year. Regression analysis found that this negative relationship also held up controlling for other plausible independent variables.

Conclusion

The politics of taxation and fiscal transfers in Russia in the early 1990s struck observers as haphazard, ephemeral, and devoid of any underlying logic. To participants and experts, monetary allocations seemed to result from the clash of lobbyists, rebounding like billiard balls between a dozen centers of power in the capital, deflecting each other at numerous junctures. About all that seemed certain was that the outcome would be complicated and irrational.

But the trajectories of billiard balls, though hard to predict before play begins, are actually highly ordered. They can be understood in terms of the laws of physics, the skill of the players, and the rules of the game. This chapter has tried to trace the aggregate paths of a subset of state money during the early years of Russia's postcommunist transition. Admittedly the data is partial and imperfect, and can only suggest patterns rather than prove causal relationships. But, even given its flaws, it seems to tell a fairly consistent and intelligible story, one that is far less random than it might at first appear.

Among phenomena that may explain why some regions do better and others worse in the competition for transfers and tax revenues, the politics of regional protest occupies a prominent place. In 1992, 1994, 1995, and probably 1996, regions that had recently voted more heavily *against* Yeltsin or his political allies received more generous shares of a range of different central transfers and tax benefits. Regions where the local leadership had made separatist gestures or opposed the president or his central allies at moments of crisis also seemed to be favored. And in 1992, as a dramatic wave of labor mobilization tapered off, those regions that had suffered major losses to strikes in the previous year were also treated to larger benefits by the government.

Central policy seemed aimed to appease regions with a demonstrated capacity and resolve to challenge Moscow, whether by elite declaration, voting, or mass action. The patterns created by such a politics of blackmail stand out more sharply than any associated with uneven access, institutional power, or pork-barrel spending. While disruptive action appears to earn rewards for politicians, behind-the-scenes strategies of influence (such as infiltrating key committees or parliamentary leadership posts and associating with top officials during visits to the provinces) seem, with a few exceptions, either not to be independently effective in the fiscal arena or else to yield results too small or private to feature in what figures are published. While corruption, personal connections, and clique rivalries characterize the conventional—and partly justified—image of recent Russian politics, such features of political life occur within a far more openly competitive and apparently precarious process of threats, pressures, and political brinkmanship.

This casts a rather unexpected light on the periodic conflicts and crises between Moscow and the provinces in the early 1990s. Protests that came clothed in the trappings of nationalism or labor militancy may at times have been acts in a more prosaic drama. A couple of examples suggest the contradictory mix of separatism, protest, and bargaining that infused Russia's center-region relations. In the spring of 1993, a young businessman from Kalmykia, Kirsan Ilyumzhinov, was elected that republic's president. His campaign, playing upon Kalmyk cultural distinctness, had asserted the need for economic independence from Moscow. Shortly after his victory, he sent a letter to the Russian Minister of Finance, Boris Fyodorov, declaring his commitment in the interest of greater independence to reducing the need for subventions from the Russian budget (Ilyumzhinov 1993). In the next sentence, he requested that "in order to resolve this question already in the second half of this year" the Finance Ministry issue Kalmykia an interest-free budget loan of 90 billion rubles.

One example of the subsidy-seeking strike occurred in Primore in the summer of 1993. In August, the region held a one-day, general work stoppage. The strikers' demand was not for an increase in wages, but for a lowering of electricity and fuel prices, a reduction of the territory's payments to the federal budget, and control over import and export fees. The region's governor, Yevgeny Nazdratenko, said he did not call for a strike "but did not persuade people to return to work either" (Todres 1993). The newspaper *Kommersant* noted that the strike was supported by the region's corps of deputies and industrial directors, along with the largest seaports (Vetrov 1993). Nazdratenko happened to be in Moscow at the time, where he was making similar demands to the central government. Soon afterward, a delegation including the prime minister, Viktor Chernomyrdin, visited Primore and promised various kinds of assistance. In October, Chernomyrdin signed a resolution permitting Primore to reduce remittances to the federal budget, providing 55.5 billion rubles in additional credits for the rest of the year, and establishing fixed prices for electricity, which, according to the newspaper *Segodnya,* would require 143 billion rubles in subsidies for coal purchases (Bekker 1993b).

Such strategies of simultaneous negotiation, rhetorical hostility, and implicit threats of disruption seem rational given the logic of fiscal policy already noted. But why did the center yield to such blackmail? Appeasement is generally considered a self-destructive and destabilizing policy, likely merely to encourage aggressors to increase their demands. Rewarding the recalcitrant seems calculated to increase their number. Yet despite a central policy of rewarding the most voluble troublemakers in 1992–93, tensions between Moscow and the regions subsequently abated. Explaining this paradox is the goal of the next two chapters.