

# Attempts under Putin to Create a Unified Economic Space in Russia

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Has President Vladimir Putin made any headway in reversing the trend of decentralization (or literally disintegration) that characterized the Russian economy in the 1990s? To answer this question, this paper first considers institutional developments related to Russia's economic integration. It then examines some empirical data on differences among Russian territorial units in terms of economic development and reform. Finally, it considers the territorialized nature of economic opportunity in the Russian Federation.

It is now well known that one of Putin's stated goals is to strengthen "vertical power." In the context of Soviet power, this is a somewhat frightening concept; however, the relevant context is not the Soviet period, but rather the decentralized and in many ways chaotic 1990s. The breakup of the Soviet Union was itself a process of political and economic decentralization, and as is now well known, led to concomitant processes of decentralization within the territory that would become the Russian Federation. The Russian Federation emerged in late 1991 without a constitution. Not until December 1993 did Russia finally adopt a constitution, and then a series of bilateral treaties as well as regional level laws immediately followed that contradicted either federal laws or the new constitution itself. These legal and constitutional disputes directly affected federal economic relations because they often involved disagreements over levels of taxation and subsidies, the control and use of natural resources, regional currency equivalents, and regional trade restrictions. Moreover, even if legal and constitutional clarity had been achieved *de jure*, a consistent problem of post-Soviet Russia has been both the outright contradiction between written laws and practice and the selective application of law by both regional and federal officials.

Moreover, despite the fact that one of the goals of market-oriented reform was certainly to reduce the role of the state in the economy, during the 1990s it became clear that rather than a leaner, more efficient state, the post-Soviet Russian state had become both bloated and incapacitated. Although the federal government did retain some capacity for episodic predatory action—in the face of wage arrears, non-payment of taxes, demonetization of the economy, and a host of regional actions that worked against the existence of a common economic space—for the

most part, the central government was simply too weak to enforce federal laws or fulfill federal obligations.

Given the current consensus on deficiencies of Russian economic reform, and state institutional development in particular, a program for vertical power should be more welcome than worrisome, and the changes to the federal institutional structure that were introduced in 2000 (including the seven macro-districts, the introduction of governors-generals, the restructuring of the Federation Council, and the reworking of local (subregional) relations) are likely to have important positive effects on the integration of the Russian economy.

Although institutional reforms are the basis for the development of a unified economic space in Russia—and thus far under Putin appear to be moving in the right direction—an examination of empirical data on differences among territorial units in terms of economic development and reform suggests that Russia still has a very long way to go in terms of equalizing economic opportunity throughout the federation. For example, in a study of 10 Volga capital cities during the 1990s, Martha de Melo et al. found that although there were many similarities among the cities at the beginning of the transition, since then disparities in prices, wages, and levels of industrial production have increased. Similarly, a very wide range of outcomes across regions in types of economic policies, support for specific economic sectors, access to credit and foreign investment, and assessments of regional wealth has been well documented.

In a specific attempt to measure the integration of the Russian economy, and in particular the integration of regional commodity markets, Daniel Berkowitz and David DeJong studied the period from 1994 to 1999 using monthly time-series data on regional commodity markets. They found a period of integration for 1994–1995, followed by “disconnectedness” in 1996–1997, and then more integration from 1998–1999. More such work, when data after 1999 are available, will be needed to assess more carefully the level of economic integration that has occurred in the Putin era.

To understand the development of a unified economic space in Russia, a more nuanced understanding of the territorialized nature of economic opportunity in Russia is also important. Although the discussion in this paper thus far has been restricted to consideration of those territorial units that make up the 89 subjects of the federation, in fact several other territorial formations’ fortunes are also related to the development of a unified economic space within Russia. For example, if considering municipalities, clearly there is not only inter-regional inequality, but also economic differences among cities within regions are very severe.

In addition to “regular” cities and towns, the system of ZATOs (closed cities or closed administrative-territorial formations) continues to exist. These territorial units are unusual in that they are areas of military research that are supported entirely by the federal budget, except for some limited assistance with road maintenance by regional governments. However, they are suffering under continuing cuts in federal funding and emigration of the labor force. Moreover, their status is unclear; the federal government is not taking adequate care of them, and regional governments largely ignore them—this despite the fact that ZATOs are responsible for sensitive military research.

The system of ZATOs suggests an archipelago of economic activity that is removed from the territory in which the cities exist. However the ZATOs are not the only pockets of territorialized hidden economic activity. In the effort to adapt to changing and often difficult economic circumstances that might include the loss of wage income or reduction of income due to currency

devaluations, retreating from the formal economy by producing one's own food and relying on informal channels has become a relatively common post-socialist response. And, this response of "going informal" is territorialized, because the options for people vary by where they live: in cities people can get second jobs or retreat into the "black" or "gray" economy, and some can supplement food supplies by growing food at dachas. In small towns alternative jobs and second-economy options are more limited, while growing food at dachas is more common. In rural areas, most households grow their own food, but they can also sell it for secondary income. In isolated areas, however, such as the northern oblasts or forests, Judith Pallot and Dominique Moran have shown that the household has again become the unit of production and consumption, and that informal exchange networks have largely replaced the cash economy.

Although current legal-institutional developments under Putin suggest movement toward homogenization of the rules guiding economic activity, the very deep differences in economic development and programs of economic reform across territorial spaces of the federation, which are a result of geography, history, and Soviet economic planning, as well as current policy responses, constitute a formidable set of obstacles to the development of a uniform set of rules for economic activity. A balanced approach that neither ignores existing differences, nor codifies and exacerbates differential development, must be sought. In any case, however, until support for basic economic activities, such as contract enforcement, is institutionalized across all territories of the federation, both in law and in practice, speaking of a single economic space in Russia will be difficult.

Preliminary estimates of the level of economic integration in Russia as measured by institutionalization of a uniform framework for economic activity as well as the regional variance in terms of economic development and reform suggests that although efforts under Putin thus far constitute a significant attempt toward greater integration, it is too early to conclude that economic integration has been achieved.