

## Introduction

The key aim of the project “Political and Economic Problems of the Russia’s Regions” was to study the impact of regional business specifics (policy pursued by regional authorities, local governments, regional policies of the federal authorities, regional specifics of political and legal culture and institutes on the dynamics of economic development of the regions, as well as determine key factors behind the direction and pace of the economic development of regions; and also to focus on the impact of political and legal factors on economic development, identifying data that will allow the building of a methodology for a more strict evaluation of regional components of investment risks than the ones currently available.

Another purpose of the research is to create recommendations for the federal authorities to encourage more effective regional economic policy. The objective is

In terms of methodology the project bases on the comparative analysis of institutional specifics of Russia’s regions. The institutional diversity of Russia’s regions (sometimes going the reasonable limits) presents rich material for such an analysis.

### **Principal results:**

- The basic model demonstrated that the influence of institutional factors on economic growth was significant;
- A large amount of data on political and economic specifics of Russia's regions was brought to the attention of the academic community; materials for further cross-regional studies (Russian and Canadian regions) were collected.

At the first stage of the research a detailed analysis of individual regions was conducted. The thorough study of the situation in the Perm, Saratov, and Tyumen Regions resulted in respective reports. The data formats differ across reports partly due to the fact that some information on the Perm Region was reflected in the report “Relations between authorities and small businesses” included into the project “Regional Finances,” and partly because the methodology of formalized comparative analysis becomes rather the principal result than prerequisite of the study.

Basing on the analysis there were singled out some factors presumably having a significant impact on the economic development of regions. The data on these factors were collected across all Russia’s regions and generalized, thus presenting the variables to be used in our economic model alongside with economic statistical data.

## Some comments on the research methodology

Elaboration of the methodology of formalized evaluation of the impact of political and legal factors on economic development.

There are various kinds of cross- country and cross- regional evaluation of the quality of legal systems, investment climate and investment risks, of which the rating of economic freedom developed by Heritage Foundation and Cato Institute (USA) are especially notable. There also are numerous kinds of evaluation of investment risks used in the model of CARM and the others.

Their advantageous nature comprises the in- depth specification of legal norms and practice as well as the mere fact of their presence and use over decades.

Their general defect is the presence of non- formal expert estimates with ranging which result in clear and grave errors (or example, according to the Heritage Foundation's "The 2000 index of Economic Freedom", Myanmar is ranged in the middle of the respective list, albeit the country does not guarantee and exercise elementary legal norms needed for a stable performance- individual rights of a person, the right for defender in the court, and even the right for life itself, while the private property rights are substantially suppressed and constrained by leftist- radical military authorities. In a number of cases, even the use of unified business surveys raises certain doubts: for example, according to EBRD<sup>1</sup>, the Quality of Governance (which comprises estimates of obstacles to business, legal order, crime rate, and macroeconomic indices) in Uzbekistan is higher than in Poland, Czech republic, Lithuania, and Slovak republic ( although, at any rate the results of such polls are very interesting).

In the course of evaluation of the situation in the developed countries, such mistakes are likely to happen much rarely, however, the transitional economies very much need more strict and formal estimates.

To specify the regional component of investment risks, the methodology of formal analysis of institutions in the Russian regions to be elaborated in the course of the present research is based on the following assumptions and hypotheses:

1. The main reason for the Russian business's inefficiency is transaction costs which are much greater than both the respective costs in Western Europe and North America and in a number of Eastern- European countries- Poland, Hungary, Estonia, Slovenia, and Czech Republic).

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<sup>1</sup> Transition Report 1999. Ten years of Transition, EBRD, 1999, pp. 116-117

2. In Russia, the main source and components of the transaction costs are the low quality of the legal order provided by the state (as a public good)- low quality, vague nature and excess ( from the viewpoint of the minimal justified level of the state regulation of the economy) of many legal provisions of the federal and regional law which allow bureaucrats making voluntary decisions, the high proportional weight of the government provisions that are frequently amended under the lobbyists' pressure; the imperfect law enforcement practice, due to a low profile of judges and their dependence on the regional administration. The society, which has just freed itself from totalitarianism, so far cannot compensate for the absence of formal norms and practice with strict moral norms and customs of business turnover, and flexible activity of NGO-s ( the latter are very scarcely represented in the regions, and, notably enough, they do not tend to grow, nor their number and influence do).The overall result of the government's failure to provide for the legal order and the society's inability to compensate for the formal legal order with informal institutions is a very low level of confidence. The inability of the society and the government to maintain the confidence between market agents generates risks and transaction costs.

3. Because of that, our methodology would be focused primarily on a detailed specification of fundamental legal norms ( listed by J. Lokk) to the level that allows their formal analysis. Whereas the main Russian ( federal) law was built upon these principles, in the majority of cases, the task is to realize whether the regional law complies with the Russian one, and if there are any cases of a grave non- compliance of the given elementary norm with the law enforcement practice as per the federal law.

At the same time, we do not exclude a possibility to use expert estimates with the score ranging as well as the position ranging.

The methodology will be verified with the use of relatively simple econometric models, in which the data acquired will be used as independent variables, while various indices that characterize socio- economic situation of the regions will serve as depending variables.

The detailed description of the methodology, including the aforementioned models, would lay the ground for the respective report ( one of the two planned in the course of implementation of the work within the framework of the present project).

A number of materials necessary to elaborate and test the methods of formalized evaluation of the impact political and juridical factors have on the economic development in the Russian Federation at large is collected. Selected materials is contained in the Supplements below.

According to the hypothesis to be tested in the course of the study certain institutional specifics of regions are a significant factor affecting economic growth.

The materials have been selected according to certain formal indicators in order to specify institutional indicators (for instance, while analyzing the right of judicial protection there are noted instances of illegal actions against opponents of the authorities, the presence of human rights public organizations, cases won by such organizations in regional courts or in the Supreme Court of Russia, etc.; while analyzing normative acts concerning regional taxes there are noted tax privileges, individual privileges stipulated by legislation, individual privileges granted by executive authorities, group privileges ..., the existence of regional legislation regulating procedures for the granting of tax privileges, the presence of provisions stipulating an increase in the expenditure borne by the legislative authorities compensating for such privileges (for instance, a requirement to reduce expenditure in order to counterbalance privileges, agreement with the executive authorities, etc.).

Information has been also collected along other lines (infringements on property rights, land laws and agrarian reform; barriers to the movement of labor, goods, and capital; information policy – the existence of independent mass media and others).

The data array accumulated by the middle of the second quarter permits to formulate the complete list of independent variables necessary to interpret different variants of the formal description of the relationship between the economic development, economic growth and the institutional parameters. In compliance with the approved project this study purposes to define key factors determining the direction and pace of the economic development of regions; to assess the impact of political and judicial factors on the economic development (the regional component of political investment risks) in formal terms.

Besides, the data necessary to elaborate recommendations on the deregulation of the economy has been singled out of the collected materials.

#### *Literature Review*

There are different methods of evaluation of the quality of legal systems, investment climates and investment risks in countries and regions.

Among them – “economic freedom” ratings by Heritage Foundation and Cato Institute (USA). There are also investment risk evaluation methods used in models by CAPM and some others.

One should see as their advantages the depth of specification of legal norms and practices as well as the mere fact of their existence and application throughout decades.

Their basic common disadvantage is in the informal expert evaluations with ranging categories. They resulted in obvious and big mistakes (i.e. Heritage Foundation economic freedom rating – “2000 Index of Economic Freedom” according to the “world order” category Mianma (Burma) has an average index, while this country does not guarantee or implement elementary legal norms, necessary for a stable business activity – individual immunity, the right for a court protection, and even the right to live, while the right of private property is substantially limited by voluntaristic action of the leftist radical military power). Certain doubt may be raised in a number of cases about the application of Quality of Governance unified polls among businessmen (as the result of which according to EBRD’s assessment) in Uzbekistan (including assessment of obstacles to business –legal, criminal, and macroeconomic) higher than in Poland, Checkhia, Lithuania and Slovenia<sup>2</sup> (although the results of these polls are quite interesting anyway).

In case low levels of street crime, moreover the officially registered levels of street crime adjusted for the informational noise (reflection, exaggeration, or hushing up of facts related to manifestations of organized or street crime) are viewed as “Rule of Law” legal order, then the level of legal order maintained by authoritarian states may indeed be appreciated. However, although this approach seems to be very natural (especially in terms of subjective opinions of people susceptible to the influence of collective myths, prejudices, or just threats of repression for too great a frankness), it shall not be regarded as a rigorous or even admissible way to analyze the situation in the majority of countries.

Perhaps such errors are less probable in the course of an analysis of developed countries; however, there exists an urgent need of more rigorous and formal evaluation criteria for economies in transition.

Some approaches to the quantitative evaluation of the quality of institutions have been already worked out. For instance, the authors of indices of economic freedom (see above) use indicators of the ratios of state expenditures and revenues to GDP; the tax burden levels as indicators of the state presence in the economy; Clague C., Keefer P., Knack S., Olson M. in “Contract-intensive money: Contract Enforcement, Property Rights, and Economic Performance” (Working Paper No 151, IRIS<sup>3</sup>) proposed to evaluate the ability of the state to enforce contracts by the share of cash in the broad money (M2) viewed as the reflection

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<sup>2</sup> Transition Report 1999. Ten Years of Transition”, EBRD, 1999 pp. 116-117

<sup>3</sup> See: M. Mokhtari, S. Caner, V. Kontorovich «Ekonometricheski analiz neplatezhei v Rossii (An Econometric Analysis of the Arrears Problem in the Russian Federation),» Ekonomicheski Zhurnal VshE No. 1, 2000, p. 11.

of the share of self-fulfilling transactions (purchases of goods in retail stores, purchases of bus tickets and so on) and the reverse indicator (the share of non-cash money) as the reflection of the share of contract-intensive transactions (i.e. requiring written contracts, as a rule fulfilled via bank transfers).

It is assumed that the larger is the share of contract-intensive transactions the higher economic agents appreciate the ability of the state to enforce contracts. In principle, even inflation may be viewed as an indicator of security of property rights.

At the same time, all these indicators are of synthetic nature, i.e. include a number of “non-institutional” components related to the macroeconomic policy and macroeconomic situation, what allows to expand and improve the set of variables suitable to describe institutes.

The closest prototype of the selected approach is the analysis of factors affecting governmental famine relief operations across different states of India. This model was put forward by Timothy Besley and Robin Burgess in article «Does Media Make Government More Responsive? Theory and Evidence from Indian Famine Relief Policy». The explained variable is Governmental expenses for Famine Relief; Circulation of independent (private-owned) newspapers indicators provided independent variables. Since the overwhelming majority of Indian newspapers are private ones, it was easy to gather data on their circulation, although in this particular case this approach looks unjustified<sup>4</sup>.

The principal suitability of the quantitative methods for an analysis of the institutional environment (in case comparable data on other economies in transition are available) was demonstrated in IET publications on the problem of stability of the legal base<sup>5</sup>.

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<sup>4</sup> The wealthiest and most liberal in economic terms states are historically less literate than the national average, while poor state Kerala for many years run by Maoist-minded Communists is the most literate state in the country and accordingly implements famine relief programs on the largest scale (since the state often experiences famine). Basing on the model it might be concluded that there is a significant relation between the responsiveness of ruling politicians to the problems faced by the population and literacy, however, this conclusion bases on an improper interpretation. The presence of positive relation may be interpreted as a failure of a socialist experiment, which even in the most literate state led to such catastrophic outcome, and, accordingly, it may be concluded that such institutional factors as guarantees of private land property are more significant than indicators of literacy and other indicators of initial capital endowment.

<sup>5</sup> V. Mau, A. Volosatov «Pravovaya baza ekonomicheskoi reformy: problema ustoychivosti (Legal Base of Economic Reform: Problem of Stability)» «Voprosy Ekonomiki» No. 8, 1998, etc.

The empirical political analysis research methods were thoroughly reviewed by Jarol B. Manheim and Richard C. Rich<sup>6</sup>.

The authors stress that the mathematical methods applied to analyze political developments shall be more diverse and complex than those applied by natural sciences. Interrelation and interdependency of social processes results in the necessity to take into account more variables.

A single variable can not fully operationalize a concept it represents failing to present all dimensions of the concept and misleads about the relation actually existing in the real world. Concepts of sociological sciences (including the political science) are multidimensional in the sense that they may be reviewed in several aspects or are composed of several components. The applied criteria shall reflect the multidimensional nature of concepts, otherwise they can not be used as concept indicators. For instance, reducing the concept of democracy to the criterion of regularly held elections we might classify dictatorships as democracies.

The authors define *operationalization* as the process of selecting observable phenomena to represent abstract concepts, and *instrumentation* as the specification of steps to take in making observations. The application of an instrument results in a *measurement*, and it is this measurement which we finally use as evidence in making decisions and answering questions.

The variables shall be operationalized in order abstract concepts may be represented in quantitative terms and meaningfully compared with phenomena observed in the real world in terms of qualities set by these concepts. The assignment of numerals to objects or events to represent qualities is defined as *measurement*. Measurement results in the assignment of a certain *value* to each variable. There are *nominal*, *ordinal*, and *interval* levels of measurement.

**Nominal measurement** presents a set of discrete categories permitting to delineate different objects, and denominate objects in accordance with the set classification, thus allowing to group objects by classes. Categories shall be mutually exclusive and collectively exhaustive.

**Ordinal measurement** allows not only to categorize, but also put phenomena in a certain order. The concept of the *social class* is usually measured at this level, each person is assigned the rank of upper, middle, or lower class.

**Interval measurement** allows to classify and rank objects and demonstrate how far from each other are distanced different phenomena in terms of this variable.

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<sup>6</sup> Politologiya. Metody issledovaniya (Political Science. Research Methods). Transl. from English / Preface by A. K. Sokolov. Moscow, «Ves Mir», 1997.

This book demonstrate that political phenomena shall be described as fully as possible and represent abstract concepts (in this case institutes) as combinations of all detected categories. Factorial analysis methods, i.e. the principal components analysis allows to correctly analyze phenomena and construct the model.

On the whole, it may be noted that in spite of the fact that some approaches to the formal study of the institutional environment of reforms may be found in the available literature (even L. Balcerowicz used the term “variable” to characterize institutional factors<sup>7</sup>), the authors do not employ the formal methods where such variables (more or less clearly and formally defined) would be used for the quantitative evaluation of their impact on economic growth.

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<sup>7</sup> L. Balcerowicz “Sotsializm, Kapitalizm, Transformatsiya (Socialism, Capitalism, Transformation).” Nauka / URAO, M., 1999.



## Model description

### A hypothesis

A hypothesis was about the institutional reforms significantly influencing economic development of a region, and its ability to attract investment.

Among such factors notable are:

1. Legal, in particular – peculiarities of legislation and its enforcement practices, the power of institutions, which are independent from the government – free press, human rights advocates;
2. Political, specifically the stability of government and political conflicts.

It is important to note that the present research was not aimed at all at exposing an existence of such an influence or confirm its main directions (institutions influence economics first of all and not vice versa). Such an assumption is quite apparent and stems from microeconomic prerequisites<sup>8</sup>.

The project was aimed to find approaches allowing to evaluate in quantitative terms the impact of institutes and their quality on the economic growth potential. A set of models basing on the court statistics and information on existence of different institutes across Russia's regions was constructed in order to fulfil this task. This approach will permit to gradually improve the explanatory quality of models in the course of further research by collecting new data and improving reliability of economic statistical information.

#### *Substantiation of the Hypothesis*

Any investment decision (into education – into a specific university's graduation certificate, into the construction of a new factory or a store in a particular location) any individual or a corporate entity tries to weigh or take into account all risks based upon the available information.

The risks, which have a pure economic nature (related to fluctuations of demand, factor prices etc.) are quite complicated to take into account. Likewise, it is not always possible to be able to project risks related to a loss of all property, life hazards, health and reputation. Although it is obvious that the significance of precisely the latter ones is particularly great when a decision must be made. Whereas the risk of the first type are "consistently unpredictable", then the risks

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<sup>8</sup> At the same time the results of the study may indirectly encourage or prevent from the acceptance of such a hypothesis.

of the second type represent a rather adverse case. In the Rule of Law countries adaptive expectations of an acceptable level of such risks are rational as a rule. Similarly rational (except the marker) are the adaptive expectations in the countries with prevailing discretionary or “positive” rule.

Adaptive expectations of the acceptable levels of such risks as a rule prove to be correct in the Rule of law countries. Indeed, such risks do not rise unpredictably, although there was registered a number of exceptions related to unexpected occupation (for instance, in the course of World War II). Democracies, as a rule, are rather stable. Even in case the Weimar Republic is considered as rule of law state, there were enough signals of the near collapse to warn a rational subject long before January of 1933<sup>9</sup>.

The same is true for the adaptive expectations (of the opposite sign) in countries where exists the discretionary, or “positive” legal system. Changes occur seldom; traditional systems exist for hundreds and thousands years. Unpredictable changes are also often related to unexpected occupation (Japan, Germany).

The Rule of Law countries with a stable democratic system may have and do have their institutional barriers. But nevertheless the investment attraction of the countries, where the barriers created for business through a excessively strict environmental, social and other types of legislation, where there is a “Food and Drug Administration” and other similar agencies, delaying for years market access for pharmaceutical products, cosmetics and food items, where there exist absolutely exotic limitations like gender and racial quotas, ‘positive discrimination’ etc, to say nothing of high taxation, this attraction remains incomparably higher than in the countries with a formal or real liberal taxation, with minimal or sometimes non-existent formal barriers to business, but with weak guarantees to personal safety and consequently to private property and the whole set of rights based upon it.

This means that the “demand” for this institutions by businesses is much greater and their significance for the purpose of developing a beneficial investment climate is bigger, than of such institutions as licensing, registration, clearing of projects, inspections etc, which is more or less associated with the notion of “deregulation”. This could be easily explained even at the level of a simple

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<sup>9</sup> The rapidly growing influence of the Nazi and closely related parties, weakness and indecisiveness of the Republicans in defense of new institutes, hordes of Nazi storm-troopers fighting against paramilitary units belonging to other major parties (hundreds of killed on each side – see, for instance: S. Yu. Danilov “Pravovye demokraticheskiye gosudarstva. Ocherki Istorii (Rule of Law Democracies. Historical Essays),” M. “Marketing,” 1999, Ch. III).

common sense – if one can “regulate” human life, than the issue of regulating an individual’s business becomes secondary.

The detailed econometric or other substantiation of the propositions discussed above **is outside the framework of this study; however, it may become the topic of a number of further publications.** The following arguments only briefly outline the possible guidelines of further research<sup>10</sup>.

Capitals flight to USA and Switzerland not only from Russia and African countries, but also from oil monarchies – there are no banks or investment companies comparable with American, European, of Japanese ones – not otherwise<sup>11</sup>. The same is true for people who invested in their human capital and have the opportunity to resettle in other countries.

On the whole, it may be noted that in countries ruled by laws, not by people, accumulate more capital (including human capital) than countries with principally different types of governance and regulation. Since in the former the costs of the export of capital (including human capital) are less than in countries with

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<sup>10</sup> M. Olson clearly defined this position at the qualitative level: “...there is a hidden path to a successful economy. It was often argued that the rights of individuals, although desirable in moral terms, are rather an obstacle than source of economic development, a luxury prosperous countries may afford, but not the source of their prosperity. However, this opinion is erroneous. It is not by chance that institutes guaranteeing the universal rights of individuals exist precisely in prosperous societies.” See: Mancur Olson, “Skrytaya tropa k protsvetayushchei ekonomike (The Hidden Path to a Successful Economy)”, in “Stanovleniye Rynochnoi Ekonomiki v Stranakh Vostochnoi Evropy (The Emergence Of Market Economies in Eastern Europe),” M. RGGU, 1994, p. 121.

<sup>11</sup> Indeed, the Arabs (and of course the Jews) had been main international bankers before the Italians succeeded them in this capacity, therefore the religious ban employed to explain their later backwardness is an absolutely groundless argument. The fact that the rigid interpretation of this ban prevailed as an institute resulted from the choice the Islamic civilization made at that time, not because it was strictly enforced. The ban on the usury inherited by the Christians and Muslims from the Jews hindered the Muslims to practice usury much less than ban on alcohol prevented Omar Khayam from praising wine. The Jews managed to circumvent this ban in theological terms in the early Middle Ages, the Christians – in the 13<sup>th</sup> century (Thomas Aquinas). For sure, the Muslims also could find ways to circumvent this ban. Gaps in the ban (it was not prohibited to practice usury with regard to people of other denominations, each estate had the right for an income consistent with its status) might be used or not used depending on the choice. At present, when each religious banker may resort to elegant solutions of this problem the reference to the ban on usury existing in Islamic countries makes no sense at all.

“traditional” order, this fact alone suffices to derive the conclusion on the structure of economic agents’ demand for institutes.

The considerable scope of inflow of human capital in the rule of law democracies presents a widely discussed problem even in spite of high barriers preventing immigration (this fact alone is a sufficient evidence of the attractiveness of these countries for this type of capital; at the same time the fact that first mass migrations had occurred and first such barriers had been set in place to prevent them before there originated the “welfare state” reveals that migrants pursue the opportunity to earn their living, not just receive high incomes). The number of immigrants from Asia and Africa (over 5 million people according to the US Census Bureau<sup>12</sup>, including about a quarter million Arabs – the equal number of immigrants work in countries of Persian Gulf with comparable per capita GDP and minimal cultural barriers for emigrants from countries of traditional culture).

Therefore, it makes sense to conduct comparative research of the following problems:

- Directions of capital flows (analysis of countries with comparable incomes);
- Directions of migration at large and migration of people with higher education, academic degrees, publications in North American and West European scientific journals.

Since security, law and order, and effectiveness of the judiciary system are primarily determined at the national level, the “national” (federal) components of investment risks seem to be more significant than regional and local ones.

The “national” components of investment risks appear to be more important, than the regional and the local ones. Since safety and security, the rule of law, the efficiency of judiciary are defined at exactly this level. However, versatility of institutions and administration practices in the Russian regions is so vast, that it makes the attempt to evaluate the influence of the regional political and legal peculiarities over economic developments a sensible exercise.

The present study makes an attempt to assess the “quality” of legal institutions with the help of court statistics. We believe it is worthwhile to note, that nowhere (either in domestic, or in foreign literature) have we noticed a similar type of an approach.

Besides a number of institutions has been described with the help of logical variables with values 1 – availability of an institution; -1 non-availability of an institution, availability of data pointing to this, or availability of sufficient reasons to equate the lack of a respective information to a non-availability of an in-

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<sup>12</sup> US Census Bureau, [www.census.gov](http://www.census.gov)

stitution and 0 when it is not possible to authentically identify an availability of non-availability of this institution in a particular region.

### **The difference of the proposed method of research from the known analogous methods**

Probably during the analysis of the situation on the developed countries similar kinds of mistakes are not frequent, however, for the countries in transition the need for stricter and more formal assessments seems to be more vital.

The method developed in the course of the implementation of the project aimed at conducting a formal analysis of the institutions in the Russian regions for the purpose of specifying the regional component of investment risks is based upon the following assumptions and hypothesis:

1. The main reason for the inefficiency of the Russian business is in the transaction costs, which greatly exceed not only similar transactions costs in the developed countries of Western Europe and North America, but those in a number of East European countries (Poland, Hungary, Estonia, Slovenia, Chekhia) as well.
2. The basic sources and components of transaction costs in Russia are made up of the low quality of the legal order provided by the states (as a public good) – low quality, ambiguity and excessiveness (from the point of view of the minimum justifiable level of the government regulation of economics) of many legal norms of Russian and regional legislation, providing beurocrats with great opportunities to act voluntarily, a big net share of legal norms enacted by the executive power, which are frequently being changed as the result of various lobbying pressures. Imperfections of the law enforcement practices due to low level of professionalism of the judges corpse and their dependence upon regional administrations. A society, which just recently has freed itself from a totalitarian grasp is yet unable to compensate for the lack of formal norms and practices with strict moral norms and customs of business behavior, active flexibility of non-governmental organizations (which are very few in the regions with practically no tendency towards their growth and influence). The general result of an insufficient “delivery” by the state of a “legal order” and the inability of the society to compensate for the deficit of a formal legal order with informal institutions is a very low level of trust. Inability of the society and the state to maintain trust between commercial entities in the market leads to the risks and transaction costs. Consequently the main emphasis in our method will be made on a detailed specification of the basic legal norms (listed by J.Lock, except, so far, the freedom of con-

sciousness) up to the level of formal analysis. With that we exclude right away the possibility to employ expert evaluations with ratings based upon scores as well as upon “places”.

In the course of data collection it was decided not to analyze (not include in the model the cases of) autonomous districts and the Republics of Chechnya and Ingushetia, since the necessary set of data on court and economic statistics (the latter are necessary to describe the vector of the dependent variable) was not available. Similar problems were encountered in the course of analysis of the legislation of the aforementioned RF subjects.

In order to determine values of logical variables (those describing institutes), the laws and other normative acts effected by RF subjects, as well as publications in mass media (there was gathered an impressive collection of such publications) were analyzed to find out if certain norms were (were not) in place. Several more specific papers (political conflicts in regions, regional press, price regulation and trade barriers) were composed basing on the collected data and on the data gathered in the course of work on three reports (on the political, legal, and economic situation of the Perm, Saratov, and Tyumen Regions) envisaged by the project. Basing on the results put forward in these papers and in certain cases on other sources not previously used in the course of data collection there were composed tables of logical variables values. The similar approach was employed to compose tables basing on the information about specifics of regional legislation.

In order to analyze the information on human rights organizations there was used the collection of links to human rights sites located at server [www.hro.org](http://www.hro.org) and at server [www.memo.ru](http://www.memo.ru) (belonging to “Memorial” society). Besides, Victor Aleksandrovich Kucherinko ([kucherinenko@memo.ru](mailto:kucherinenko@memo.ru)), an expert of “Memorial” society responsible for contacts with regions, checked the respective section of the table of values of logical variables.

### **Independent variables**

1. The variables, which make it possible to assess the guarantees of individual immunity.

According to the Ministry of justice in 1999 based on the content of criminal violations stipulated in Article 19 of the Criminal Code “Crimes against constitutional rights and freedoms of a human being and a citizen” 1000 people were convicted (the main part of the Article, and additionally 1280 – based upon additional degrees of compounding misdemeanors), the prevailing majority of which – for the violation of the sanctity of residence and the violation of the rules of labor safety. For interference into private life, privacy of communication, the

right to the freedom of consciousness, obstruction to public gathering, lawful work of a journalist, refusal of providing information to a citizen etc, only a few dozens convictions in the whole country and not a single one for the latter case. There have been cases of sentences passed according to Criminal Code articles, protecting individual immunity - for the knowing illegal detention and arrest, for coercion into providing evidence, for falsification of evidence etc. But there have been just a few dozen sentences like that throughout the full year.

This scale of the work of judiciary aimed at protecting of the most fundamental institution of an open society does not make it possible to use the data received as a conventional variable, assessed on a per capita basis. But, at least, it would have made sense to reflect the available data as logic variables (i.e. passing of sentences under articles of the Chapter 19 - the lack of such sentences, conviction under the above mentioned articles of the Chapter on “Crimes against justice” – a lack of such decisions). Unfortunately the data from the Judiciary department of the Supreme Court of the Russian Federation divided into regional sources do not reflect the nature of cases under the mentioned articles, while the data from the Ministry of justice does not have any indication of regional content. This development much understates the use of the judicial statistics, if not completely derides it of any sense.

The only data which we have for the area indicated and which has been concluded into the model – a number of complaints against unlawful arrests and the number of positive (on changing the nature of detention) court decisions following such complaints.

2. Variables characterizing regional law application practice. This set of variables partly compensates for the lack of data on judicial protection of personal immunity/ Among them – availability of regional human rights protection entities which have their own reception rooms and web sites; availability of human rights organizations which has a record of winning a court case in a capacity of a consultant or an attorney sponsoring organization, or a third party to the case. Finally, availability of a regional human rights protection network.

The quality of work by investigating authorities and prosecution (and partly by courts themselves) characterizes the number of cases, which had been remitted for further investigation (per capita). Also taken into account were shares of sentences passed by district courts and appealed by courts of higher authority in criminal and civil proceedings, as well as per capita number of convictions acquitted because of incorrect or unsubstantial evidence.

Five logical variables characterize availability of independent mass media (freedom of speech is considered, on the one hand, as an additional guarantee for

personal immunity, and henceforth for private property, as well as the condition for transparency of budgets, economic activities of the government and open joint-stock societies).

This is: 1. Availability of non-communist mass media, accusing regional authorities of inability to take action, violation of law and moral standards; 2. Availability of mass media with characteristics in p. 1, being printed and broadcast from the territory of the region itself; 3. Availability of political mass media with foreign founders or which are subsidiaries of foreign mass media; 4. Availability of local mass media regularly relaying programs by foreign mass media; 5. Availability of mass media, which are affiliated to major national metropolitan media, or an availability of metropolitan media correspondent networks.

Two indicators demonstrate the political situation in a region. The first one – possible conflict between a governor and a mayor of a regional center, representatives of the Federal agencies and major businesses. Second – stability of a governor (whether the head of a region was changed during 1992-2000).

A whole number of logical variables describes the specifics of economic legislation. Among them are of particular note the variables, which reflect availability of anti-constitutional bans on or limitations to movement of goods and liberal pricing policies, in effect limiting the right of private ownership (Limitation of sales mark-ups, profitability rates; Existing or eliminated through prosecution authority protest legal acts, which demand for fixation of prices; regulatory requirement for “preliminary clearing of prices through consumers’ or local authority’s approval” or other such procedures, an existence of five or more legal acts, regulating prices in a region, availability of bans on or other types of administrative limitations to export of products into other regions).

Another set of variables reflects on the system of tax exemptions and granting thereof in the regions.

### **Explainable variables**

The biggest problems arose at the point of selection of an explainable variable. We do not feel any satisfaction even having seen this selection finally made. Basically, it was not possible to make it in any finite form, after all. Statistics related to the most natural of criteria – Gross regional product on a per capita basis, unfortunately, is too uncertain. To say nothing of the fact that this kind of data has been published since 1994 only. At the national level though (when we talk of GDP) the margins of error of evaluating its regional components (related to the problems of assessing financial and merchandise flows between the regions) often offset each other. The GRP values are too little and the mentioned



margins of errors are too significant not to reflect on the soundness of the created model.

The errors in the measurement of regional components (related to the problems of evaluation of inter-regional flows of goods and capitals) of the national GDP partially cancelled each other at the national level.

Besides, official GRP statistics are published in current prices, what presents difficulties in the course of comparison. The study had to resort to the normalization by subsistence levels registered in the respective regions (i.e. to use an extra indicator introducing its own error). GRP values are too small, therefore these errors were significant enough to affect the reliability of the model. Therefore, in spite of the apparent substantive advantages of the GRP index over statistical indicators it was not used as an explained variable.

Indeed, the poor quality of the GRP indicator (especially when normalized) made us to use the data on foreign investment and such indicators as the increase in the number of cars per 1000 residents as the doubling explained variables.

The latter may hardly be regarded as full-fledged integral indices. However, their reliability and comparability far exceed the GRP indicator (there are few people driving cars without registration plates; the official statistics reflect the data on foreign investment with less errors than domestic ones). Therefore, we preferred to use reliable indicators in stead of integral indices as explained variables.

We hope to use the dynamic GRP indicators in the future, when the methods used by official statistics improve.

## **Statistical Analysis and Tentative Conclusions**

### *Statistical Analysis: Methodology and Tentative Conclusions*

In the course of the analysis of causalities between indicators it often turns out that the set of elementary characteristics is the manifestation of one factor, while the characteristics may (and even must) correlate with each other, what results in the multicollinearity problem in case they are used as explanatory variables in the framework of usual regression analysis. The factorial analysis allows to reveal latent general characteristics being the indicators of a higher order of integration. The detected latent factors permit to more precisely describe the existing relations and regularities constituting groups (in the framework of cluster analysis) thus simplifying the model and reducing the unexplained dispersion (in the framework of regression analysis).

The principal components analysis is a method of factorial analysis allowing to explain the whole variation of elementary characteristics via latent factors. In geometrical terms this method may be interpreted as the determination of the parameters of an ellipse describing the distribution of characteristics and, accordingly, the determination of axes (principal components) generalizing variability of elementary characteristics. The resulting weight coefficients (the factor loadings) allow to evaluate the contribution of each input characteristic in the principal component. In order to better interpret the factors the space of common factors was rotated so factor axes could pass through most dense clusters of points thus minimizing their deviation from the axes. The detected factors may be used for a further research of the causalities in the framework of regression and cluster analyses.

We intend to apply the principal components method to research institutional factors of growth across RF regions. The fact that we took into account the multidimensional nature of described institutes confirm our choice of the method. For instance, we used 5 indicators while evaluating the degree of independence of mass media:

1. Presence of non-Communist mass media criticizing regional authorities;
2. Location of printing or broadcasting facilities of mass media criticizing regional authorities;
3. Presence of political mass media with foreign co-founders or being subsidiaries of foreign mass media;
4. Presence of local mass media regularly re-broadcasting programs of foreign mass media;
5. Presence of subsidiaries of Moscow-based mass media, correspondent networks of Moscow-based mass media.

We also tried to describe different dimensions of other institutional variables. Proceeding from this fact it becomes clear why the methods of usual regression analysis could not be directly applied to the original data. Regression precludes the possibility to simultaneously use all characteristics, since it would cause the problem of multicollinearity, complicate the model and reduce the reliability of evaluations. However, we conducted regression analysis in attempt to single out the institutional indicators most significantly affecting economic growth. As a result, it was found out that the model including latent factors detected by the principal components method is much more useful both in the formal aspect (the quality of the model), and in the informative aspect (the explained variables may be more easily interpreted and are in favor of the hypotheses generated at the initial stage of research).

*EXPLAINED VARIABLE: AMOUNT OF FOREIGN INVESTMENT ACROSS RF REGIONS IN 1998, % OF THE TOTAL*

	<b>Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>		
(Constant)	6,093	3,772	,000
Occurrence of cases won in courts	2,154	2,201	,031
Restrictions on merchantile additions, levels of profitability, etc.	-4,877	-2,817	,006
<b>Adjusted R Square</b>	<b>,127</b>		
<b>F</b>	<b>6,259</b>		<b>,003</b>

*EXPLAINED VARIABLE: GROSS REGIONAL PRODUCT 98, PER CAPITA RUB. THOUSAND*

	<b>Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>		
(Constant)	32,589	9,239	,000
Presence of human rights organizations having reception offices and / or web sites in the region	4,794	2,671	,009
Share of reversed by cassation instances judgments passed by district courts in criminal cases	-2,196	-2,033	,046
<b>Adjusted R Square</b>	<b>,148</b>		
<b>F</b>	<b>7,505</b>		<b>,001</b>

The necessity to single out the principle components was also related to the fact that many of our indicators are not continuous variables. We used logical variables 1 / -1 / 0 (yes / no/ no information respectively); therefore, the usual methods of regression analysis might be used with great reservations. The detected factors are not logical variables.

Although the factorial analysis has been well known for a long time, it is not often applied, especially at IET, therefore, we thought it appropriate to offer a formalized description of the principal components method and theory of the computation of variables in an annex. Certainly, such a description may be found in any text book on the statistical analysis; however, in order to minimize the time required to find such a textbook we composed a brief outline of this method. From our point of view it also would be useful to describe a practical computation case, since statistical analysis software SPSS is easier available than related textbooks even for the registered users. These sections may be reviewed as the promotion of the method very useful when encountering a large number of inter-related explanatory variables.

☉ It shall be stressed that the problem of the quantity of variables and of multicollinearity is rather of substantive than formally mathematical nature. Institutional factors are integral by their nature. They are interdependent and often are only “different sides of the same coin” (for instance, free mass media and human rights organizations influence both the quality of the judiciary system and the quality of decision making on the part of the legislature; besides, the presence of free mass media automatically improves the effectiveness of human rights organizations, while strong human rights organizations are a barrier to attempts to suppress free mass media; strong and independent judiciary makes the police and the prosecutor office to work better).

At the same time, it is necessary to stress that these factors are mutually complementary (the quality of free mass media is complimentary to the quality of human rights organizations, their combined qualities contribute in the quality of the judiciary and law enforcement, etc.). In other words, each indicator from the list of independent variables is not exhausted by other, but compliments them rather significantly, as may be assumed. Obviously, the presence of public institutes *per se* is a necessary, but not sufficient factor. Naturally, that the institutes of courts and police do not just compliment the presence of independent institutes, but are the factors allowing (or preventing) realization of the majority of commercial projects. Long-term investment-related businesses are interested in a stable legal order, not in the fight (even successful) against those responsible for its enforcement.

To find out the contribution of input indicator in the principal component see Table 1.

As one can see from table 1. The received components are subject to substantive complete and clear interpretation.

TABLE 1. ROTATED COMPONENT MATRIX

	Component									
	1	2	3	4	5	6	7	8	9	10
Mass media, printed and broadcasting in the territory of a region	0,874	0,202		-0,173	0,170					
Availability of non-communist media, criticizing regional and major urban authorities	0,814	0,120			0,147		0,124	0,210		
Availability of political media with foreign founders or which are subsidiaries of foreign mass media	0,719		-0,397					-0,293		
Availability in a region of human rights watch entities with own reception rooms and/or web-sites *	0,234	0,777					-0,176	-0,112	-0,221	
Availability of special human rights networks		0,764	-0,102		0,110		0,137			0,231
Record of cases won in courts	0,239	0,691					0,171		-0,231	-0,155
Group exemptions instituted by law	-0,200	0,558	-0,122	0,150		0,154	-0,217		0,345	-0,323

TABLE 1. (CONTINUED) ROTATED COMPONENT MATRIX

	Component									
	1	2	3	4	5	6	7	8	9	10
Share of district court sentences repealed by appellate judiciary proceedings higher courts	-0,112	-0,100	0,736		-0,228	-0,144		0,110	0,216	
Availability of mass media which are affiliates of major metropolitan media, availability of metropolitan media local correspondent networks	-0,185	0,301	-0,711		0,124		0,183	0,171		0,148
Availability of local media regularly re-broadcasting programs by foreign mass media	0,421		-0,642							
Limitation of sales mark-ups, levels of profitability etc.		0,115	0,564		0,318	0,167		-0,193	-0,183	
Number of arrest complaints, positively resolved out of them	-0,125			0,893						
Number of arrest complaints	-0,136	0,100		0,877					0,141	
Share of repealed or amended sentences in civil cases in the district courts	-0,266	-0,122	0,264	-0,448	-0,114		0,366	0,175	0,213	
Political development of a region, availability of conflicts (1) between regional authorities and legislative assembly, mayor, business	0,108		-0,136	-0,113	0,727	-0,185	0,323		0,140	
Stability (1) / instability (-1) of a governor	-0,277				-0,703	-0,183	0,112	-0,112		0,154
Bans and other administrative limitations on export of products into other regions		0,139	0,145		0,591		-0,133		-0,239	
Prosecution protest enacted or annulled legal acts in a region: fixation of prices	-0,153	0,171	-0,162		0,423		-0,361	-0,112		0,252
Individual exemptions provided by legislation		0,145	0,258			0,740	0,233	0,148		
Number of cases remitted for further investigation			0,352			-0,670	0,107	-0,151		0,157
Preliminary «approval of prices» by consumers or government authorities or other individual procedures	0,241	-0,312	0,192	0,146		0,398	-0,207	-0,343	-0,120	0,101
Availability of a regional law on the order of granting of exemptions	0,161	0,174		-0,114		0,131	0,640	-0,134		0,127
Five or more legal acts enacted in a region, which regulate prices		0,152	0,290	-0,332		0,179	-0,547	0,310		0,250
Civil litigation against unlawful action by government authorities or public organizations						0,195	-0,151	0,796		
Absolute number of sentences rejected due to wrong convictions in 98-99	0,219	-0,238		0,243					0,757	
Individual exemptions instituted by executive power decision	-0,170			-0,360	-0,133	0,387	0,128	-0,356	0,460	0,252
Group exemptions instituted by executive power decision			-0,117							0,863

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. a Rotation converged in 19 iterations.

### *Interpretation of Principal Components*

The first component reflects the influence of independent mass media. It shall be noted that probably due to the aforementioned problems encountered while using integral explained variables in the analysis, this component is not contained in models employing more “specific” models.

The second component is represented by human rights organizations.

The third component is more difficult to interpret – it includes the indicator of the occurrence of restrictions on free trade and price formation (mercantile additions) and the indicator reflecting the problems related to the quality of the judiciary (the share of reversed by cassation instances judgements passed by district courts in criminal cases) (the values are of the positive sign); and two indicators characterizing the competitiveness and openness of the regional mass media market – the presence of subsidiaries of Moscow-based mass media, or correspondent networks of Moscow-based mass media and of local mass media regularly re-broadcasting programs of foreign mass media (both values are of the negative sign) (see Table 2 below).

The fourth component primarily reflects the quality of the judiciary – the number and the share of satisfied appeals against unlawful arrests (this institute is of the special importance as a guarantee of the inviolability of the person, especially taking into account the fact that the militia, prosecutors, and other law enforcement agencies equally unsatisfactory perform their functions, while the situation of detainees on remand is so awful that many human rights activists rightly review it as a torture)..

The fifth component reflects the negative impact of political instability, restrictions on the export of goods, and attempts to fix prices.

The tenth component (on the whole, it is difficult to interpret, since it includes a motly set of input variables) is dominated by the weight of the logical variable reflecting the presence of group tax privileges set by executive authorities.

Table 1 demonstrates that the components may be easily and distinctively interpreted in terms of substance.

The models included in the annex demonstrate the significance of the second component (independent human rights institutes), the third component (independent mass media and, partially, the quality of criminal legal procedure, as well as a form of price regulation), and the third component (the political situa-

tion of regions – conflicts between different authorities, the stability of the power of the Governor).

TABLE 2

#	Dependable variable	Coefficients of principal components (factors) of the model	Respective t-statistics	R <sup>2</sup>
1.	Foreign investment in 1998	-4*10 <sup>-5</sup> (third); -6*10 <sup>-5</sup> (fifth)	-2,843; -3,579	0,201
2.	Relative increase in the number of cars per 1000 residents	9,05 (second); - 14,33 (third); 12,83 (tenth); 48,18 (dummy - Common border with Belarus, Poland, and Japan)	2,105; -3,357; 3,025; 3,021	0,288
3.	Per capita GRP (normalized by subsistence minimum), the average for 1995 through 1998	4,42 (second factor); -3,42 (third factor);	3,353; -2,589	0,175

### Principal Results

For details see Annex 1 to the model description. The not high, although statistically reliable R<sup>2</sup> may be considered as a quite satisfactory result taking into consideration the aforementioned fact of the higher significance of the federal level institutes for the ensuring of basic rights. However, the main reason we did not consider it necessary to select factors increasing the explanatory power of the model was its orientation toward the most clear detection of the significance of genuine institutional factors.

In principle, it was possible to bring the explanatory power of the model close to one (by introducing more integral explanatory variables, like the election statistics, poll data reflecting the adaptation of the populace to the market environment, and other variables, including dummies, in order to take into account a larger number of factors related to the initial endowment of the region with various resources. However, in this case we would miss the opportunity to test the basic hypothesis. We would not be able to single individual factors out of the large number of substantially different factors (institutes and human capital, fixed assets and deposits of mineral resources) and to evaluate their significance. This approach would only result in a platitude that "the economic development is determined by the combination of all factors."

Values and signs of new variables (factors, principal components) appearing in the model may be clearly interpreted. The regional restrictions on information result in lower ranking of such regions (the presence of subsidiaries of Moscow-based mass media, of correspondent networks of Moscow-based mass media, and of local mass media regularly re-broadcasting programs of foreign mass media

appeared in the third factor being of the negative sign), similarly to the poor quality of court judgements (the share of reversed by cassation instances judgements passed by district courts in criminal cases appeared in the third factor being of the positive sign). The only civil law norm – restrictions on merchantile additions, profitability levels, etc. appeared in this factor also being of the positive sign, although its weight was less than the weights of such factors as mass media and court judgements.

The second component reflecting the role played by independent human rights public institutes appeared in one of the models being of the positive sign.

The fifth component appears in the modes being of the negative sign and reflects political problems (instability of executive authorities, conflicts between authorities, etc.). Significant weights were also assigned to the prohibition of exports from regions and price fixation practices.

### **Approaches to Ranking**

Values of explained variables are “predicted” by applying the obtained regression dependencies and are tentatively reviewed as a ranking based on the data described above (in section “Independent Variables”).

For the graphical representation of the results see Annex 1 to the model description.

### **Approaches to rating development**

With the help of the received dependencies the values of the explained variables are being “projected”, which are evaluated in the first order as a rating method, bases upon the data mentioned above (in the “independent variables” point).



## Supplement 1. Table of Variables

REGION	CARCOEF	BORDER	VRP98	INV1998
	Increase in the number of cars per 1000 residents (from end-91 to end-99)	Common border with Belarus and Japan	GRP – 98	Investment
Republic of Adigeia	141,9293219	0	21,046116	6,19003E-06
Bashkortostan Republic	154,53149	0	18,208717	0
Republic of Buriatia	198,2258065	0	42,093365	4,39292E-05
Gorni Altai Republic	120,1863354	0	24,446249	2,83751E-05
Dagestan Republic	134,4	0	12,178137	0
Kabardino-Balkariya Republic	132,8715365	0	19,378437	9,08364E-06
Republic of Kalmikya	144,8951049	0	13,508252	0
Karachayevo-Cherkessiya Republic	122,4904701	0	18,02541	1,8647E-05
Republic of Kareliya	216,6924266	0	24,229377	1,0721E-05
Komi Republic	206,0240964	0	46,241344	0,000354951
Republic of Mari El	185,8227848	0	20,069758	0
Republic of Mordoviya	171,1267606	0	24,878017	3,21007E-05
Sakha Republic	164,619883	0	32,551417	0,00019102
North Osetian Republic	177,2655008	0	13,959395	0
Tatarstan Republic	233,7634409	0	52,14688	0,000526861
Tiva Republic	168,0154143	0	9,4260578	1,04734E-05
Udmurtiya Republic	180,6049822	0	27,166531	1,08666E-05
Khakassiya Republic	147,9525862	0	25,208431	0
Chuvashiya Republic	190,7643312	0	23,006733	3,80277E-06
Altayski Krai region	142,3586041	0	19,405633	5,19794E-06
Krasnodar regions	186,3961814	0	29,639442	0,000176622
Krasnoyarsk region	167,1490593	0	50,426797	5,63428E-06
Primoriye region	294,0594059	1	24,635704	6,64773E-05
Stavropol region	164,1717791	0	26,13648	6,12288E-05
Khabarovsk region	311,5217391	0	33,395539	4,43795E-05
Amur region	189,9171271	0	25,033975	0
Archangel region	193,3333333	0	26,438584	2,66705E-05
Astrakhan region	179,4520548	0	22,966361	1,70121E-05
Belgorod region	175,3721245	0	36,789825	0,000292817
Bryansk region	167,9878049	1	22,881315	1,9228E-06
Vladimir region	191,902834	0	25,089342	0,000312049
Volgograd region	149,8084291	0	27,109496	7,28184E-05
Vologda region	255,450237	0	37,891592	1,25781E-05
Voronezh region	182,9090909	0	26,484401	4,43254E-06
Ivanovo region	205,4373522	0	19,792333	0
Irkutsk region	169,7164948	0	37,84788	9,71381E-05
Kaliningrad region	332,5914149	1	21,505536	9,64041E-05
Kaluga region	178,4745763	0	24,661973	0,000147067
Kamchatka region	173,3727811	1	28,956925	0,000112175

TABLE CONTINUED

REGION	CARCOEF	BORDER	VRP98	INV1998
	Increase in the number of cars per 1000 residents (from end-91 to end-99)	Common border with Belarus and Japan	GRP – 98	Investment
Kemerovo region	180,0904977	0	31,295339	6,17671E-06
Kirov region	179,002079	0	21,602828	0
Kostroma region	176,5327696	0	29,004872	6,51795E-06
Kurgan region	130,7519641	0	23,63974	2,43709E-06
Kursk region	287,1794872	0	34,93014	2,91084E-05
Leningrad region	259,4320487	0	24,811108	0,000223534
Lipetsk region	207,7441077	0	39,143089	3,4538E-05
Magadan region	214,3656716	0	24,804893	0,00019992
Moscow region	275,0809061	0	34,209868	0,000240761
Murmansk region	158,2689335	0	33,769355	1,41888E-05
Nizhni Novgorod region	197,1659919	0	38,947544	0,000110856
Novgorod region	183,6864407	0	29,080199	0,00013612
Novosibirsk region	145,7496136	0	22,230306	0,000117467
Omsk region	195,9216966	0	32,388326	0,000496255
Orenburg region	149,8786408	0	34,166133	0,000154222
Oriol region	189,5759717	0	29,21004	9,45031E-05
Penza region	179,4573643	0	16,360533	7,36961E-06
Perm region	249,8740554	0	44,123762	3,41245E-05
Pskov region	214	1	19,572418	1,20446E-05
Rostov region	172,3536737	0	26,337051	1,12213E-05
Riazan region	205,8365759	0	27,857886	9,80911E-06
Samara region	220,7934337	0	50,046432	0,000132861
Saratov region	154,2043984	0	25,634979	3,30486E-05
Sakhalin region	229,9107143	1	25,767113	0,000267506
Sverdlovsk region	165,6140351	0	33,331681	4,99769E-05
Smolensk region	149,6441281	0	27,388342	6,06135E-05
Tambov region	228,3702213	0	24,40521	0
Tver region	220,7900208	0	26,895649	7,59764E-06
Tomsk region	159,6096096	0	41,161852	0,000188335
Tula region	210,1123596	0	27,922425	4,53191E-05
Tiumen region	242,143906	0	99,776445	9,0255E-05
Ulyanovsk region	198,8679245	0	36,598999	0
Cheliabinsk region	165,9634318	0	31,056884	3,89035E-05
Chita region	168,2316119	0	16,973279	1,54303E-05
Yaroslavl region	207,5055188	0	36,308574	3,74483E-05
Moscow	270,5209657	0	61,869665	0,001000155
Saint-Petersburg	218,0055402	0	30,796814	0,000141638

*TABLE CONTINUED*

REGION	OPP98	IPP98	NEPRAV	DOSLED
	Volume of industrial output	Index of industrial production	Number of appeals against unlawful actions of collegial authorities, public organizations	Number of cases submitted for re-investigation
Republic of Adigeya	0,0063015	104	0,724444444	0,7488889
Bashkortostan Republic	0,0014908	74	0,03960396	1,0940594
Republic of Buriatia	0,0301853	97	0,041352469	0,3770372
Gorni Altai Republic	0,0116338	97	0,021988528	1,9015296
Dagestan Republic	0,002465	92	0,047732697	0,3264916
Kabardino-Balkariya Republic	0,0073123	103	0,218434343	0,2348485
Republic of Kalmikya	0,0049186	100,1	0,078864353	1,2176656
Karachayevo-Cherkessiya Republic	0,0077944	90	0,038990826	0,7155963
Republic of Kareliya	0,0175717	97	0,506443299	0,5231959
Komi Republic	0,0288341	99	0,067183463	1,1050818
Republic of Mari El	0,0126683	103	0,018348624	0,6251638
Republic of Mordoviya	0,0164436	102	0,037076271	0,4798729
Sakha Republic	0,0238883	103	0,035892323	0,6899302
North Osetian Republic	0,0048858	102	0,170437406	0,4298643
Tatarstan Republic	0,0458831	100,2	0,057763646	1,0296767
Tiva Republic	0,0020528	96	0	5,5
Udmurtiya Republic	0,0222562	99,1	0,018337408	0,9767726
Khakassiya Republic	0,018519	95	0,070205479	1,0633562
Chuvashiya Republic	0,0154925	92	0,01986755	0,5371597
Altayski Krai region	0,0128302	94	0	1,0130988
Krasnodar regions	0,0120986	99	0,205123153	0,5749754
Krasnoyarsk region	0,0428966	99,1	0,060064935	1,4694805
Primoriye region	0,0148745	93	0,273465704	0,6990072
Stavropol region	0,010631	104	0,172259508	0,4705444
Khabarovsk region	0,0172159	104	0,067917206	3,7244502
Amur region	0,0089083	89	0,184750733	0,9032258
Archangel region	0,0153796	103	0,035522788	0,633378
Astrakhan region	0,0115257	116	0,06122449	1,0417881
Belgorod region	0,0336796	105	0,068059299	0,703504
Bryansk region	0,0113368	97	2,627986348	0,4668942
Vladimir region	0,02142	95	0,068669528	0,26916
Volgograd region	0,019854	97	0,493891151	0,5942244
Vologda region	0,0461963	99,3	0,088872293	0,6676624
Voronezh region	0,0167018	90	0,373692679	0,3515688
Ivanovo region	0,0149334	83	0,06741573	0,7166934
Irkutsk region	0,0225886	100,1	0,045061283	3,852199
Kaliningrad region	0,0115636	91	0,310710498	0,9575822
Kaluga region	0,0150529	99,8	0,169104205	0,0082267
Kamchatka region	0,0179429	95	0,025252525	0,9267677

*TABLE CONTINUED*

REGION	OPP98	IPP98	NEPRAV	DOSLED
	Volume of industrial output	Index of industrial production	Number of appeals against unlawful actions of collegial authorities, public organizations	Number of cases submitted for re-investigation
Kemerovo region	0,027666864	96	0,061528283	0,752563678
Kirov region	0,015354625	95	0,03533788	0,341599504
Kostroma region	0,020199123	105	0,028858218	0,558343789
Kurgan region	0,016915818	102	0,047920434	1,042495479
Kursk region	0,026519877	102	0,161676647	0,991017964
Leningrad region	0,020205839	99,8	1,097502973	0,816290131
Lipetsk region	0,046370745	93	0,102564103	0,585737179
Magadan region	0,01489034	96	0,085365854	1,699186992
Moscow region	0,014558577	99,8	0,104357099	0,500761731
Murmansk region	0,024953851	95	0,074729597	0,368731563
Nizhni Novgorod region	0,032101793	99	0,020286719	0,721395726
Novgorod region	0,023752954	105	0,169376694	0,459349593
Novosibirsk region	0,009934168	91	0,353219352	0,642779192
Omsk region	0,014674657	85	0,025699862	0,581000459
Orenburg region	0,026551119	95	0,049327354	0,897757848
Oriol region	0,015057489	93	0,085997795	0,570011025
Penza region	0,011195911	97	0,065203357	0,477081988
Perm region	0,032999178	92	0,031480241	0,863362358
Pskov region	0,010707618	102	0,207317073	0,582926829
Rostov region	0,014364584	100,1	0,126930064	0,473660309
Riazan region	0,021274008	107	0,082631982	0,456006121
Samara region	0,039456828	89	0,122695678	0,568449683
Saratov region	0,015686464	102	0,079295154	0,794052863
Sakhalin region	0,012265932	104	0,074193548	0,983870968
Sverdlovsk region	0,027547994	91	0,020618557	1,492482818
Smolensk region	0,022364153	94	0,495246327	0,534140017
Tambov region	0,013027734	102	0,061145511	0,649380805
Tver region	0,017716179	103	0,365584813	0,746478873
Tomsk region	0,02394183	95	0,032618826	0,868592731
Tula region	0,023563018	97	0,093505039	0,603583427
Tiumen region	0,062942473	99,4	0,032388664	0,571784491
Ulyanovsk region	0,0302707	101	0,047875927	0,940660823
Cheliabinsk region	0,03359946	88	0,051344743	0,675359957
Chita region	0,00577863	85	0,034455756	1,695379796
Yaroslavl region	0,027301443	92	0,057142857	0,578397213
Moscow	0,013898914	103	0,111600417	0,350677946
Saint-Petersburg	0,015788683	99	0,126342388	0,474205096

TABLE CONTINUED

REGION	AREST	ARESTUD	NPRAVO	WIN	SETPRAVO	OTKAS
	Number of appeals against unlawful arrests	Number of appeals against arrests, of which were satisfied	Presence of human rights organizations having reception offices and / or web sites in the region	Occurrence of cases won in courts	Presence of specialized human rights organizations	Share of reversed by cassation instances judgements passed by district courts in criminal cases
Republic of Adigeya	0,48	0,17	-1	-1	-1	2,6
Bashkortostan Republic	0,98	0,05	-1	-1	-1	5,7
Republic of Buriatia	0,57	0,08	1	-1	0	3,05
Gorni Altai Republic	0,85	0,1	0	1	-1	3,45
Dagestan Republic	0,06	0,01	-1	-1	-1	3,2
Kabardino-Balkariya	0,1	0,04	-1	-1	-1	6,35
Republic of Kalmikya	0,94	0,3	-1	-1	-1	5,05
Karachayevo-Cherkessiya Republic	0,34	0,13	-1	-1	-1	4,4
Republic of Kareliya	1,51	0,12	1	-1	1	3,9
Komi Republic	0,91	0,11	1	-1	0	1,5
Republic of Mari El	1,06	0,18	1	0	0	3,5
Republic of Mordoviya	0,4	0,05	1	0	-1	6,2
Sakha Republic	0	0	1	0	-1	5,2
North Osetian Republic	0,14	0,03	-1	-1	-1	3,55
Tatarstan Republic	0,58	0,09	1	-1	0	2,1
Tiva Republic	0,18	0,04	1	0	0	6,7
Udmurtiya Republic	1,01	0,15	1	0	1	3,75
Khakassiya Republic	0,59	0,1	1	-1	-1	2,5
Chuvashiya Republic	0,46	0,03	-1	-1	-1	1,8
Altayski Krai region	0,02	0	1	0	0	4,25
Krasnodar regions	0,33	0,06	1	0	1	2,45
Krasnoyarsk region	0,44	0,06	1	-1	1	2,05
Primoriye region	0,4	0,11	1	-1	-1	1,9
Stavropol region	0,5	0,09	1	1	1	3,4
Khabarovsk region	0,29	0,04	1	0	-1	2,95
Amur region	0,54	0,09	-1	-1	-1	2,7
Archangel region	0,71	0,09	1	0	1	1,6
Astrakhan region	1,07	0,13	1	0	1	4,4
Belgorod region	0,23	0,02	1	0	1	4,2
Bryansk region	0,13	0,01	1	0	0	3,05
Vladimir region	0,36	0,06	1	0	-1	0,95
Volograd region	0,39	0,09	1	0	-1	2,75
Vologda region	1,14	0,15	1	0	-1	1,7
Voronezh region	0,2	0,04	1	0	1	1,4
Ivanovo region	0,29	0,01	1	0	-1	1,15
Irkutsk region	0,39	0,12	1	0	0	2,35
Kaliningrad region	0,82	0,08	1	-1	-1	1,2
Kaluga region	0	0	1	1	0	2,35
Kamchatka region	0,31	0,05	-1	-1	-1	2,5

TABLE CONTINUED

REGION	AREST	ARESTUD	NPRAVO	WIN	SETPRAVO	OTKAS
	Number of appeals against unlawful arrests	Number of appeals against arrests, of which were satisfied	Presence of human rights organizations having reception offices and / or web sites in the region	Occurrence of cases won in courts	Presence of specialized human rights organizations	Share of reversed by cassation instances judgements passed by district courts in criminal cases
Kemerovo region	0,67	0,11	1	-1	0	3,15
Kirov region	0,88	0,09	1	0	-1	2,75
Kostroma region	1,07	0,14	1	0	0	1,85
Kurgan region	1,01	0,13	0	-1	-1	2,6
Kursk region	0,4	0,04	1	-1	0	1,35
Leningrad region	0,85	0,18	-1	-1	-1	1,5
Lipetsk region	0,47	0,05	1	-1	-1	1,7
Magadan region	1,05	0,25	-1	-1	-1	3,35
Moscow region	0,28	0,04	1	-1	1	2,5
Murmansk region	0,89	0,11	1	0	1	2
Nizhni Novgorod region	0,17	0,02	1	1	1	2,3
Novgorod region	0,97	0,09	1	-1	-1	1,8
Novosibirsk region	0,61	0,14	1	0	1	2,15
Omsk region	0,11	0	1	0	0	1,9
Orenburg region	0,2	0,04	0	-1	-1	1,4
Oriol region	0,74	0,09	1	0	0	3,55
Penza region	0,29	0,02	1	0	1	1,9
Perm region	1,36	0,19	1	1	1	1,4
Pskov region	1,02	0,09	1	-1	0	0,8
Rostov region	0,45	0,07	1	-1	1	2,7
Riazan region	0,23	0,04	1	0	0	1,65
Samara region	0,72	0,09	1	0	0	2,35
Saratov region	0,2	0,03	1	0	0	1,7
Sakhalin region	0,31	0,03	0	-1	-1	2,2
Sverdlovsk region	0,28	0,09	1	0	1	2,1
Smolensk region	0,46	0,06	0	-1	-1	2,5
Tambov region	0,67	0,11	1	0	-1	2,15
Tver region	0,39	0,05	1	0	-1	2,05
Tomsk region	1,14	0,23	1	0	1	1,8
Tula region	0,25	0,03	1	0	0	1,95
Tiumen region	0,26	0,05	1	0	0	2,05
Ulyanovsk region	0,45	0,02	0	-1	-1	2,35
Cheliabinsk region	0,63	0,01	1	1	1	1,55
Chita region	0,39	0,07	-1	-1	-1	1,6
Yaroslavl region	0,62	0,09	1	0	0	3,05
Moscow	0,15	0,01	1	1	1	1,9
Saint-Petersburg	0,65	0,11	1	1	1	0,7

TABLE CONTINUED

REGION	OTNEOB	DOLOTIZM	SMIREG	SMIINUCH	SMIINTR	SMISTOL
	Absolute number of sentences vacated due to conviction in 1998 through 1999	Share of vacated or changed civil rulings passed by district courts	Mass media (printed within the region and broadcasting from the territory of the region)	Political mass media with foreign co-founders or being subsidiaries of foreign mass media	Local mass media regularly re-broadcasting programs of foreign mass media	Subsidiaries of Moscow-based mass media, correspondent networks of Moscow-based mass media
Republic of Adigeya	0,0111111	3,1	-1	-1	0	0
Bashkortostan Republic	0,019802	0,95	0	0	0	0
Republic of Buriatia	0,0034055	2,4	-1	-1	0	0
Gorni Altai Republic	0,0057361	0,55	0	-1	0	0
Dagestan Republic	0,0066826	6,5	1	-1	-1	0
Kabardino-Balkariya	0,0138889	4,2	-1	-1	-1	-1
Republic of Kalmikya	0,0189274	1,5	-1	-1	-1	-1
Karachayevo-Cherkessiya Republic	0,0366972	2,35	1	0	0	-1
Republic of Kareliya	0,0283505	2,5	1	0	0	0
Komi Republic	0,0086133	1,55	1	0	0	-1
Republic of Mari El	0,0078637	2,55	1	0	-1	-1
Republic of Mordoviya	0,0042373	1,5	1	0	0	-1
Sakha Republic	0,0089731	3,4	-1	-1	0	-1
North Osetian Republic	0	6,05	0	0	0	0
Tatarstan Republic	0,0140435	1,4	-1	-1	-1	0
Tiva Republic	0,0032258	3,15	1	-1	-1	-1
Udmurtiya Republic	0,0055012	1,15	1	0	0	0
Khakassiya Republic	0	1,9	1	0	0	0
Chuvashiya Republic	0,0058867	2,75	-1	-1	-1	0
Altayski Krai region	0,0179641	1,65	1	-1	-1	0
Krasnodar regions	0,0061084	2,2	1	-1	-1	0
Krasnoyarsk region	0,0090909	0,85	1	0	0	0
Primoriye region	0,0072202	2,55	-1	-1	-1	1
Stavropol region	0,0089485	1,25	1	0	0	0
Khabarovsk region	0,0045278	2,25	1	0	0	0
Amur region	0,0068426	1,45	0	0	-1	0
Archangel region	0,0013405	2,85	-1	-1	-1	0
Astrakhan region	0,0048591	2,5	-1	-1	-1	1
Belgorod region	0,0013477	3,45	1	-1	-1	0
Bryansk region	0,0054608	1,15	1	-1	-1	0
Vladimir region	0,0012262	0,75	1	0	0	0
Volgograd region	0,0022214	1,6	1	0	0	0
Vologda region	0,0246453	1,25	1	0	0	0
Voronezh region	0,0036203	1,05	1	0	0	0
Ivanovo region	0,0008026	0,95	0	0	0	0
Irkutsk region	0,0068493	0,75	0	0	0	0
Kaliningrad region	0,0254507	1,5	1	0	0	0
Kaluga region	0,0082267	1,55	1	0	0	0

TABLE CONTINUED

REGION	OTNEOB	DOLOTIZM	SMIREG	SMIINUCH	SMIINTR	SMISTOL
	Absolute number of sentences vacated due to unjustified conviction in 1998 through 1999	Share of vacated or changed civil rulings passed by district courts	Mass media (printed within the region and broadcasting from the territory of the region)	Political mass media with foreign co-founders or being subsidiaries of foreign mass media	Local mass media regularly re-broadcasting programs of foreign mass media	Subsidiaries of Moscow-based mass media, correspondent networks of Moscow-based mass media
Kamchatka region	0,0050505	0,6	0	0	0	0
Kemerovo region	0,0218326	2,15	1	0	0	0
Kirov region	0,0068196	0,7	0	-1	-1	0
Kostroma region	0,0050188	1,6	-1	-1	-1	0
Kurgan region	0,0072333	1,5	-1	-1	0	0
Kursk region	0,0037425	1,85	1	0	0	0
Leningrad region	0,0112961	1,95	-1	-1	1	1
Lipetsk region	0,0008013	2,25	-1	-1	-1	0
Magadan region	0,0121951	0,85	-1	-1	0	0
Moscow region	0,0054845	1,6	-1	-1	1	1
Murmansk region	0,0098328	0,7	-1	-1	0	1
Nizhni Novgorod region	0,0018934	2,05	1	0	0	1
Novgorod region	0,00271	1,75	-1	0	0	0
Novosibirsk region	0,0036377	2,7	1	0	0	0
Omsk region	0,0110142	1,7	1	0	0	1
Orenburg region	0,0004484	1,1	1	0	0	0
Oriol region	0,0011025	2,3	0	-1	-1	0
Penza region	0,0025823	2,2	1	0	0	0
Perm region	0,0103818	1,4	1	0	0	0
Pskov region	0,0036585	1,2	1	0	0	0
Rostov region	0,01703	1,55	1	0	0	0
Riazan region	0,0015302	1,3	1	0	0	0
Samara region	0,0099728	2	1	0	0	0
Saratov region	0,0084435	1,3	1	0	0	0
Sakhalin region	0,0403226	3,2	1	0	0	0
Sverdlovsk region	0,0105241	1	1	0	0	0
Smolensk region	0,0077787	1,2	1	0	0	0
Tambov region	0,0232198	1,1	1	0	0	0
Tver region	0,0030618	1,7	1	0	0	0
Tomsk region	0,0055918	1,75	1	0	0	1
Tula region	0,0117581	1,9	1	0	0	0
Tiumen region	0,0059172	1,95	1	0	0	0
Ulyanovsk region	0	1,7	1	0	0	0
Cheliabinsk region	0,0095083	1,9	1	0	0	0
Chita region	0,0234926	1,15	1	0	0	0
Yaroslavl region	0,0132404	2,05	-1	0	0	0
Moscow	0,0066056	2,7	1	1	1	1
Saint-Petersburg	0,0021057	1,7	1	1	1	1



TABLE CONTINUED

REGION	KONFL	GUBERN	NALLGOT	INDLGOTZ	INDLGOTV	GR LZ
	Political development of the region, occurrence of conflicts between administrations and LA, mayor, business	Stability (1) / instability (-1) of the governor	Regional law governing granting of tax privileges	Individual privileges stipulated by law	Individual privileges set by executive authorities	Group privileges stipulated by law
Republic of Adigeya	1	1	1	1	1	1
Bashkortostan Republic	1	-1	-1	1	1	1
Republic of Buriatia	1	1	-1	1	1	1
Gorni Altai Republic	1	1	-1	-1	-1	1
Dagestan Republic	1	1	1	1	1	1
Kabardino-Balkariya	0	0	-1	1	1	1
Republic of Kalmikya	0	1	-1	1	-1	1
Karachayevo-Cherkessiya Republic	1	1	0	0	0	0
Republic of Kareliya	1	-1	-1	1	1	1
Komi Republic	0	1	1	1	1	1
Republic of Mari El	1	-1	1	1	-1	1
Republic of Mordoviya	0	-1	-1	1	1	1
Sakha Republic	0	1	-1	1	1	1
North Osetian Republic	1	-1	0	0	0	0
Tatarstan Republic	0	1	-1	1	1	1
Tiva Republic	1	1	0	0	0	0
Udmurtiya Republic	1	1	1	1	-1	1
Khakassiya Republic	1	-1	-1	-1	-1	1
Chuvashiya Republic	1	1	-1	-1	0	1
Altayski Krai region	1	-1	1	1	-1	1
Krasnodar regions	1	-1	-1	1	1	1
Krasnoyarsk region	1	-1	-1	1	-1	1
Primoriye region	1	1	1	1	1	1
Stavropol region	1	-1	-1	1	-1	1
Khabarovsk region	1	1	1	-1	-1	1
Amur region	1	-1	1	-1	1	1
Archangel region	1	-1	-1	1	1	1
Astrakhan region	1	1	0	-1	-1	1
Belgorod region	1	-1	1	1	0	1
Bryansk region	1	-1	-1	1	-1	1
Vladimir region	1	-1	-1	-1	-1	1
Volgograd region	1	-1	-1	1	-1	1
Vologda region	1	-1	1	-1	1	1
Voronezh region	1	-1	1	1	-1	1
Ivanovo region	1	1	1	1	1	1
Irkutsk region	1	0	-1	0	1	1
Kaliningrad region	1	-1	1	1	-1	1
Kaluga region	1	0	1	1	-1	1

TABLE CONTINUED

REGION	KONFL	GUBERN	NALLGOT	INDLGOTZ	INDLGOTV	GRLZ
	Political development of the region, occurrence of conflicts between administrations and LA, mayor, business	Stability (1) / instability (-1) of the governor	Regional law governing granting of tax privileges	Individual privileges stipulated by law	Individual privileges set by executive authorities	Group privileges stipulated by law
Kamchatka region	0	0	0	0	0	0
Kemerovo region	1	-1	-1	0	-1	1
Kirov region	0	0	-1	1	-1	1
Kostroma region	1	-1	-1	1	-1	1
Kurgan region	1	-1	1	1	-1	1
Kursk region	1	-1	-1	-1	-1	1
Leningrad region	1	-1	-1	1	-1	1
Lipetsk region	0	0	-1	1	1	1
Magadan region	1	-1	-1	1	-1	1
Moscow region	1	1	1	-1	-1	1
Murmansk region	1	-1	-1	1	1	1
Nizhni Novgorod region	1	-1	1	1	1	1
Novgorod region	0	1	-1	-1	-1	1
Novosibirsk region	1	-1	-1	1	1	1
Omsk region	1	1	-1	-1	1	1
Orenburg region	1	-1	0	1	-1	-1
Oriol region	0	1	0	1	-1	1
Penza region	1	-1	-1	1	-1	1
Perm region	0	1	-1	-1	-1	1
Pskov region	1	-1	-1	-1	0	1
Rostov region	1	1	-1	1	1	1
Riazan region	1	-1	-1	1	-1	1
Samara region	0	1	0	1	-1	1
Saratov region	1	-1	1	1	1	1
Sakhalin region	1	-1	-1	-1	-1	1
Sverdlovsk region	1	-1	1	-1	0	1
Smolensk region	1	-1	-1	1	1	1
Tambov region	1	-1	1	1	1	1
Tver region	1	-1	-1	1	-1	1
Tomsk region	0	1	1	1	-1	1
Tula region	1	-1	1	1	1	1
Tiumen region	1	1	1	1	1	1
Ulyanovsk region	1	1	-1	1	1	1
Cheliabinsk region	1	-1	1	1	1	1
Chita region	1	-1	-1	-1	0	1
Yaroslavl region	1	1	1	1	1	1
Moscow	0	1	1	1	1	1
Saint-Petersburg	1	-1	1	1	1	1

TABLE CONTINUED

REGION	GRLV	FIXPRICE	OGRPRICE	LAW5	ZAPROUT
	Group privileges set by executive authorities	Regional normative acts (in effect or abolished by protests of the prosecutor's office):	Setting bounds to mercantile additions to prices, levels of profitability, etc.	Five of more price regulation laws are in effect in the region	Prohibition and other administrative limitations on export of products to other regions
Republic of Adigeya	-1	0	1	0	0
Bashkortostan Republic	-1	0	1	0	0
Republic of Buriatia	1	0	1	0	0
Gorni Altai Republic	-1	0	1	0	0
Dagestan Republic	-1	0	1	0	0
Kabardino-Balkariya	-1	0	1	0	0
Republic of Kalmikya	-1	0	1	0	0
Karachayevo-Cherkessiya Republic	0	0	1	0	0
Republic of Kareliya	1	0	1	0	0
Komi Republic	1	0	1	0	0
Republic of Mari El	-1	0	1	0	0
Republic of Mordoviya	-1	0	1	1	0
Sakha Republic	-1	0	1	1	0
North Osetian Republic	0	0	1	0	0
Tatarstan Republic	1	0	1	1	0
Tiva Republic	0	0	1	0	0
Udmurtiya Republic	1	0	0	0	0
Khakassiya Republic	-1	0	1	0	1
Chuvashiya Republic	-1	0	0	0	0
Altayski Krai region	-1	0	1	0	0
Krasnodar regions	1	0	1	0	1
Krasnoyarsk region	-1	0	1	0	1
Primoriye region	1	0	1	1	0
Stavropol region	-1	0	1	0	0
Khabarovsk region	1	0	1	0	0
Amur region	1	0	1	0	0
Archangel region	1	0	0	0	0
Astrakhan region	-1	0	1	0	0
Belgorod region	1	0	1	1	1
Bryansk region	-1	0	1	1	0
Vladimir region	-1	0	1	0	0
Volgograd region	-1	0	1	0	0
Vologda region	1	0	0	0	0
Voronezh region	1	1	1	0	0
Ivanovo region	-1	0	1	0	0
Irkutsk region	-1	0	1	0	0
Kaliningrad region	-1	0	1	0	0
Kaluga region	-1	0	1	0	1

TABLE CONTINUED

REGION	GRLV	FIXPRICE	OGRPRICE	LAW5	ZAPROUT
	Group privileges set by executive authorities	Regional normative acts (in effect or abolished by protests of the prosecutor's office):	Setting bounds to mercantile additions to prices, levels of profitability, etc.	Five of more price regulation laws are in effect in the region	Prohibition and other administrative limitations on export of products to other regions
Kamchatka region	0	0	0	0	0
Kemerovo region	0	0	1	0	0
Kirov region	1	0	1	0	0
Kostroma region	-1	0	1	0	1
Kurgan region	-1	0	1	0	1
Kursk region	0	1	1	1	1
Leningrad region	1	0	0	0	0
Lipetsk region	-1	0	1	0	0
Magadan region	1	0	1	0	0
Moscow region	-1	0	0	0	0
Murmansk region	-1	1	1	0	0
Nizhni Novgorod region	1	0	1	0	0
Novgorod region	1	0	1	0	0
Novosibirsk region	-1	0	1	0	0
Omsk region	1	0	1	0	0
Orenburg region	1	0	1	0	0
Oriol region	-1	0	1	0	0
Penza region	0	0	1	1	1
Perm region	1	0	1	0	0
Pskov region	-1	0	1	0	0
Rostov region	1	0	1	0	0
Riazan region	-1	0	1	0	0
Samara region	-1	0	0	0	0
Saratov region	0	0	1	0	0
Sakhalin region	-1	0	0	0	0
Sverdlovsk region	0	0	1	0	0
Smolensk region	-1	0	1	0	0
Tambov region	-1	0	1	0	1
Tver region	1	0	1	0	1
Tomsk region	-1	0	1	0	0
Tula region	-1	0	1	0	0
Tiumen region	-1	0	1	0	0
Ulyanovsk region	1	0	1	0	0
Cheliabinsk region	-1	0	1	0	0
Chita region	-1	0	0	0	0
Yaroslavl region	1	0	1	0	0
Moscow	1	0	0	0	0
Saint-Petersburg	0	0	0	0	0

## Supplement 2. Tenders

Almost all of the Russian Federation regions apply tender procedures to select suppliers of products, goods and services for government needs. However in the majority of the Russian regions such procedures have been enacted relatively recently following the adoption in 1999 of a rather imperfect federal legislation “On a tender placement of orders for supplies of goods, works and services for the government needs” (# 97-Ф3 of May 6, 1999). Besides, as a rule, a tender procedure is being applied in a voluntary way for a particular transaction, depending upon the attitudes of the regional authorities towards a particular issue. Further on we identify only those regions, which have written tender procedures into their legislation. By way of references we also mention the laws, which mention tender selection of suppliers of government contracts, but which do not set forth any specific obligations.

No mentioning of tenders one may find in the legislation of the following Federal territories - Dagestan, Buriatiya, Kabardino-Balkariya, Mariy El, Tatarstan, Khakasiya, Chuvashiya, Astrakhan, Belgorod, Vladimir, Kursk, Lipetsk, Magadan, Nizhni Novgorod, Novgorod, Omsk, Oriol, Penza, Rostov, Sakhalin, Sverdlovsk, Tver, Tomsk regions, Jewish Autonomous Region, Khanti-Mansi, Komi-Permiatski, Nenetski autonomous districts.

1. ADIGEYA. THE LAW ON SUPPLIES OF PRODUCTS AND GOODS FOR REPUBLICAN NEEDS #105-1 of December 25, 1992. Does not stipulate any responsibilities for holding tenders. (wording used – “may”).
2. January 5 2000, # 15-34 REPUBLIC OF ALTAI THE LAW ON THE STATE REPUBLICAN PROCUREMENT Adopted by the State Assembly – El Kurultai of the Republic of Altai on January 27, 2000. Good legislation. Local priority (in case of a local manufacturing). Closed tenders may be held for procurement amounts not exceeding 2500 minimum wages, extraordinary procurement, “technical complexity”, single contract.
3. December 21, 1994 # BC-26/16 BASHKORTOSTAN REPUBLIC THE LAW ON PURCHASES AND SUPPLIES OF AGRICULTURAL PRODUCTS AND FOOD FOR GOVERNMENT NEEDS IN THE REPUBLIC OF BASHKORTOSTAN.
4. November 5 1993 # BC-21/29 BASHKORTOSTAN REPUBLIC THE LAW ON THE SUPPLIES OF PRODUCTS, GOODS AND RAW MATERIALS FOR THE GOVERNMENT NEEDS.

5. October 29 1992 # 402-IX REPUBLIC OF KALMIKIYA – KHALMG TANGCH THE LAW ON THE SUPPLIES OF PRODUCTS AND GOODS FOR THE GOVERNMENT NEEDS Adopted by the Supreme Council of the Republic of Kalmikiya – Khalmg Tangch on October 29, 1992.
6. THE LAW OF THE REPUBLIC OF KARELIYA On the republican material reserve Adopted by the Republican Chamber on July 14, 1995 #70-PK.
7. THE LAW OF THE REPUBLIC OF KARELIYA On the supplies of products for the republican needs Adopted by the Republican Chamber on July 13, 1995 #68-3PK. Revoked in 2000.
8. KOMI REPUBLIC THE LAW ON INTRODUCTION OF CHANGES AND AMENDMENTS INTO THE LAW OF THE KOMI REPUBLIC “ON THE STATE REGULATION OF THE AGROINDUSTRIAL PRODUCTION” #41-P3. Adopted by the State Council of the Komi Republic October 30, 1998.
9. November 13, 1996 # 40-3 THE LAW OF THE REPUBLIC OF MORDOVIA ON THE REPUBLICAN GOVERNMENT NEEDS (Legislative drafts of December 12, 1997 # 50-3, of March 10, 1999 # 18-3). Preference to the locals (if any), requires an informal “qualification”, closed tenders for contracts not exceeding 25000 minimum wages, extraordinary cases, technical complexities, single contract.
10. March 3, 1999 3 # 79-II THE LAW OF THE REPUBLIC OF SAKHA (YAKUTIYA) ON PURCHASES AND SUPPLIES OF AGRICULTURAL PRODUCTS< RAW MATERIALS AND FOOD FOR THE NEEDS OF THE GOVERNMENT OF THE REPUBLIC OF SAKHA (YAKUTIYA) Adopted by the resolution of the Chamber of Representatives of the State Assembly (II Tumen) of the Republic of Sakha (Yakutiya) 3 # 80-II of March 3, 1999. Tender selection basis. No exceptions are envisaged.
11. February 9, 1998 # 118-K3 THE LAW OF THE KRASNODAR KRAI ON SUPPLIES OF PHARMACEUTICAL PRODUCTS TO CITIZENS ON THE TERRITORY OF THE KRASNODAR KRAI Adopted by the Legislative Assembly of the Krasnodar region on January 23, 1998.
12. December 1, 1999 # 127-II UDMURTIYA REPUBLIC THE LAW ON THE STATE REPUBLICAN RESERVE OF THE UDMURTIYA REPUBLIC.
13. October 6, 2000 # 58-3C ALTAI REGION THE LAW ON THE SUPPLIES OF PRODUCTS FOR THE REGIONAL GOVERNMENT NEEDS. Adopted by the Altai regional Council of the people’s deputies on October 3, 2000. Quite a detailed legislation. No tendering is possible for amounts under 2500

- minimum wages, extraordinary, “technical complexity”, “if the supplier is a natural monopolist”, “holds exclusive rights over the products in question”. Preferential rights – to 1) Government Procurement Department 2) companies registered in the region. Must have “sufficient labor ...resources”.
14. January 28, 1999 # 159-K3 THE LAW OF THE KRASNODAR REGION ON THE SUPPLIES OF PRODUCTS FOR THE REGIONAL GOVERNMENT NEEDS (draft Law of the Krasnodar region of February 8, 2000 # 232-K3). Local participation (if a product manufactured locally). The rest – no grounds for cancellation of tenders.
  15. October 5, 1994 # 3-45 THE LEGISLATION ASSEMBLY OF THE KRASNOYARSK REGION THE LAW ON SUPPLIES OF PRODUCTS AND GOODS FOR THE REGIONAL GOVERNMENT NEEDS OF THE KRASNOYARSK REGION.
  16. December 14, 1996 # 66-K3 THE LAW OF THE PRIMORSKI REGION ON THE PURCHASES AND SUPPLIES OF AGRICULTURAL PRODUCTS < RAW MATERIALS AND FOOD FOR THE GOVERNMENT NEEDS INTO THE REGIONAL FUND. Requires tendering.
  17. December 18, 1997 # 38-K3 RUSSIAN FEDERATION THE LAW OF THE STAVROPOL REGION ON SUPPLIES OF PRODUCTS FOR THE GOVERNMENT NEEDS OF THE STAVROPOL REGION. Adopted by the Government Duma of the Stavropol Region December 4, 1997. Selection of open or closed tender at governor’s discretion, no criteria.
  18. June 29, 1999 # 136 THE LEGISLATIVE DUMA OF THE KHABAROVSK REGION THE LAW OF THE KHABAROVSK REGION ON THE REGIONAL GOVERNMENT PROCUREMENT CONTRACT. Envisages closed tenders (or price quotations from at least 3 applicants) in case of a contract amount under 2500 minimum wages, complicated technical reasons, “significance of expenditure and time factors”, “availability of conditions justifying the holding of special closed tenders”.
  19. February 27, 1995 4-03 THE LAW OF THE AMUR REGION ON PURCHASES AND SUPPLIES OF AGRICULTURAL PRODUCTS, RAW MATERIALS AND FOOD FOR GOVERNMENT NEEDS Adopted by the regional Assembly February 15, 1995.
  20. April 24, 1996 N46-23-03 ARCHANGEL REGION REGIONAL LAW ON PURCHASES AND SUPPLIES OF AGRICULTURAL PRODUCTS, RAW MATERIALS AND FOOD FOR GOVERNMENT NEEDS, REGIONAL AND LOCAL NEEDS.

21. April 5, 1999 N 17-3 THE LAW OF BRIANSK REGION ON SUPPLY (ACQUISITION) OF PRODUCTS, PROVISION OF SERVICES AND WORK FOR THE REGION'S NEEDS. Envisages open tenders only.
22. April 3, 2000 N 487-03 THE LAW OF THE VOLOGDA REGION ON PURCHASES AND SUPPLIES OF GOODS, WORKS, SERVICES FOR GOVERNMENT NEEDS OF THE VOLOGDA REGION Passed by the Legislative Assembly of the region March 22, 2000. One of the best, if not the best example of a regional legislation. Very detailed. Acquisition without tendering for amounts not exceeding 500 minimum wages, closed tenders or price quotations - for amounts under 2000 minimum wages or (in the first case) "technical complexity". Although a strange requirement is stipulated for "qualification" of a supplier for purchasing in the amounts exceeding 2000 minimum wages.
23. December 31, 1996 N 122-03 THE LAW OF THE VOLOGDA REGION ON PURCHASES AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR THE GOVERNMENT NEEDS OF THE VOLOGDA REGION.
24. May 18, 2000 N 15-03 THE LAW OF THE IVANOVO REGION ON THE INDUSTRIAL POLICY OF THE IVANOVO REGION. Passed by the Legislative Assembly May 5, 2000. In cases of supplies with joint financing (including from the regional budget) open tender is mandatory.
25. December 18, 1988 N 231-0Д THE LAW OF THE VOLGOGRAD REGION ON THE FOOD FUND OF THE VOLGOGRAD REGION. Stipulates holding of open or closed tenders without specifying details.
26. November 28, 1995 N 36-3 VORONEZH REGIONAL DUMA THE LAW OF THE VORONEZH REGION of November 28, 1995 N 36-3 ON PURCHASES AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR THE REGIONAL GOVERNMENT NEEDS.
27. April 9, 1996 N21-03 THE LAW OF THE IRKUTSK REGION ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, GRAIN AND FOOD FOR THE REGIONAL GOVERNMENT NEEDS.
28. RUSSIAN FEDERATION THE LAW OF KALININGRAD REGION On procurement and supplies of agricultural products, materials and food for the government needs (Passed by the Duma September 28, 1995). By and large the law makes tenders mandatory.
29. RUSSIAN FEDERATION KALUGA REGION N6 of December 27, 1994. THE LAW OF KALUGA REGION ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS AND FOOD FOR THE RE-



- GIONAL GOVERNMENT NEEDS (as drafted in The Laws of Kaluga region collection of June 6, 1996 N 29, of May 22, 1997 N 9-O3). Tenders are mandatory, no limitations to contenders from other regions.
30. May 21, 1998 14-O3 RUSSIAN FEDERATION KEMEROVO REGION LAW ON REGIONAL GOVERNMENT PROCUREMENT OF THE KEMEROVO REGION. Tender is mandatory and open according to the gist of the law. However, it sets forth a mass of informal requirements to contenders (like – “to have a good reputation).
  31. June 5, 1998 N 47-30 THE LAW OF THE KIROV REGION ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD INTO THE REGIONAL FUND OF THE KIROV REGION.
  32. RUSSIAN FEDERATION KOSTROMA REGIONAL DUMA THE LAW OF THE KOSTROMA REGION N113 – 3KO of September 4, 2000 ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD INTO THE REGIONAL FUND OF THE KOSTROMA REGION. Provides for the tendering process, open in its character. Preference to the locals.
  33. May 5, 1999 N 212 KURGAN REGION THE LAW ON SUPPLIES OF PRODUCTS FOR KURGAN REGION GOVERNMENT PROCUREMENT. Open tenders shall be held, closed ones – for amounts not exceeding 2500 minimum wages or in case of a complicated technical products. Place certain informal criteria on contenders (i.e., to have “experience and positive reputation).
  34. October 7, 1997 N 71 THE KURGAN REGION LAW ON ESTABLISHMENT AND UTILIZATION OF THE REGIONAL FUND OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD. Passed by Kurgan regional Duma September 23, 1997. Open and closed tenders, actual meaning is the same.
  35. THE MURMANSK REGIONAL DUMA THE LAW OF THE MURMANSK REGION N136-01-3MO ON THE MURMANSK REGION GOVERNMENT REGIONAL PROCUREMENT. Directly envisages possible “special purpose” non-tendered contracts for government procurement without specifying formal reasons.
  36. December 8, 1997 82-03 THE LAW OF NOVOSIBIRSK REGION ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR THE NEEDS OF THE GOVERNMENT

- OF NOVOSIBIRSK REGION. Provides for the holding of tenders without specifying terms.
37. October 27, 1997 81-03 THE NOVOSIBIRSK REGION LAW ON SUPPLIES OF PRODUCTS FOR THE NOVOSIBIRSK REGION GOVERNMENT NEEDS. Provides for both for open, as well as for closed, special tenders, placement of quotations etc. Criteria are not stipulated.
  38. June 5, 2000 N 548/130-03 RUSSIAN FEDERATION THE LAW OF ORENBURG REGION ON THE ORDER FOR MUNICIPAL PROCUREMENT CONTRACT. Provides for an open tender in case the amount of supplies exceeds 1000 minimum wages per 1 item of required supplies. (However, it is quite strange to note, that there is no such law at the regional level.
  39. October 6, 2000 N1141-166 THE LEGISLATIVE ASSEMBLY OF THE PERM REGION THE LAW ON THE GOVERNMENT SOCIAL CONTRACT IN THE PERM REGION. Open tender is mandatory. There are certain informal requirements, but very few of those.
  40. September 11, 1997 N 845-128 THE PERM REGION LEGISLATIVE ASSEMBLY THE LAW ON THE REGIONAL FOOD FUND. Requires holding of tenders, without specifying the exact format.
  41. THE PERM REGION LEGISLATIVE ASSEMBLY THE LAW ON THE STATE SUPPORT OF SMALL BUSINESS IN THE TERRITORY OF THE PERM REGION delegates the right to determine tender procedures to the governor, when procurement is planned for regional needs (Passed by the Legislative Assembly of the Perm region March 20, 1997).
  42. February 11, 1997 N 4-3CO RUSSIAN FEDERATION THE SARATOV REGION LAW ON SUPPLIES OF PRODUCTS AND GOODS FOR THE REGIONAL GOVERNMENT NEEDS (draft Law of Saratov region of November 11, 1997 N 58-3CO). Concerning its procedure it makes a reference to the 1997 Presidential Decree, i.e..
  43. June 29, 2000 N 41-3CO RUSSIAN FEDERATION THE SARATOV REGION LAW ON THE REGIONAL FOOD FUND.
  44. June 2, 2000 N 36-03 THE LAW OF THE RIAZAN REGION ON SUPPLIES OF GOODS (WORK, SERVICES) FOR THE NEEDS OF THE RIAZAN REGION GOVERNMENT. Sets forth open tenders, as well as closed ones (for complicated technical matters), auctions through requests for price quotations (for amounts not exceeding 2500). Requires compulsory participation in the supplies of entities “which have a dominating position in the market”.

45. October 18, 1999 N 48-3 RUSSIAN FEDERATION THE SM OLENSK REGION LAW ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR THE REGIONAL GOVERNMENT NEEDS. Defines open tenders only.
46. May 19, 1999 N 30-3 RUSSIAN FEDERATION SMOLENSK REGION LAW ON SUPPLIES OF GOODS (WORK, SERVICES) FOR THE REGIONAL GOVERNMENT NEEDS. Only an open tender is envisaged, preference to companies registered in the region.
47. June 29, 1999 N 66-3 TAMBOV REGION LAW ON INDUSTRIAL POLICY IN THE TAMBOV REGION. The law mentions a possibility of a non-tender participation of enterprises in supplies for government procurement.
48. May 15, 1998 N 18-3 TAMBOV REGION LAW ON SUPPLIES OF PRODUCTS FOR THE TAMBOV REGION GOVERNMENT. Envisages open tenders (except when a contract is less than 2500 minimum wages, technically complicated product).
49. February 28, 1995 N 14-3 THE TAMBOV REGION LAW ON ESTABLISHMENT OF A REGIONAL FUND FOR AGRICULTURAL PRODUCTS, MATERIALS AND FOOD.
50. September 16, 1999 N 151-3 TO THE LAW OF THE TULA REGION ON THE REGIONAL GOVERNMENT CONTRACT. Envisages tenders, but nothing specific.
51. March 22, 1999 N 89 RUSSIAN FEDERATION Tiumen region THE LAW OF TIUMEN REGION ON THE GOVERNMENT REGIONAL FOOD FUND OF THE TIUMEN REGION.
52. February 27, 1995 N 5 RUSSIAN FEDERATION Tiumen region THE LAW OF THE TIUMEN REGION ON INTRODUCTION OF CHANGES AND AMENDMENTS INTO THE LAW OF THE TIUMEN REGION "ON SOCIAL CONTRACT IN THE TIUMEN REGION". Open tenders only.
53. June 17, 1997 N 015-30 THE LAW OF THE ULIANOVSK REGION ON SUPPLIES OF PRODUCTS FOR THE REGIONAL GOVERNMENT NEEDS. Provides for tender process, nothing is specific. Preference to entities incorporated locally.
54. May 26, 1997 N 010-30 THE LAW OF ULIANOVSK REGION ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR GOVERNMENT NEEDS. Tenders are prescribed without any specifics.

55. June 28, 1996 N 26-03 RUSSIAN FEDERATION THE LAW OF CHELIABINSK REGION ON SUPPLIES OF PRODUCTS FOR REGIONAL GOVERNMENT NEEDS. Tenders are envisaged, no specifics are defined.
56. May 21 1997 N 87-340 THE LAW OF THE CHITA REGION ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR GOVERNMENT NEEDS INTO THE REGIONAL FUND. Tenders are envisaged, no specifics.
57. September 30, 1996 14-3 RUSSIAN FEDERATION THE SECOND STATE DUMA OF THE YAROSLAVL REGION THE LAW OF THE YAROSLAVL REGION ON THE GOVERNMENT CONTRACT. The contents of the law treat an award of a government contract without tendering as acceptable.
58. MOSCOW MAYOR RESOLUTION October 6, 1997 N 794-PM ON SPECIFYING PROVISIONS ON HOLDING TENDERS FOR PROCUREMENT OF PRODUCTS FOR THE CITY NEEDS.
59. GOVERNMENT OF MOSCOW PREMIER RESOLUTION OF July 24, 1997 N 808-PII ON THE PROCEDURE FOR ORGANIZATION OF TENDERS FOR PROCUREMENT OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR CITY NEEDS THROUGH THE CITY BUDGET FINANCING
60. April 19, 1996 N 14/96-03 Adopted by the decision of the Moscow regional Duma April 10, 1996 N 7/88 THE LAW OF THE MOSCOW REGION ON PROCUREMENT AND SUPPLIES OF AGRICULTURAL PRODUCTS, MATERIALS AND FOOD FOR THE MOSCOW REGION GOVERNMENT NEEDS. Holding of open or closed tenders is at the administration's discretion.
61. May 20, 1999 N 91-18 The Saint-Petersburg Legislative Assembly THE LAW OF SAINT-PETERSBURG ON THE SAINT-PETERSBURG CONTRACT. Demands for tendering, without specifying tender conditions. An outside supplier may be contracted, in case the price is at least 15% lower.

### **Supplement 3. Conflicts within Regional Authorities**

The conflicts between regional legislatures and the executive authorities of RF subjects taking place before December of 1993 (the year the new Constitution was approved and councils of people's deputies dissolved), when such conflicts existed in practically all subject of the Russian Federation, were left outside this paper. At that time the conflicts arose due to the persistence of the Soviet model fixed by the Russian Constitution, which stipulated the supremacy of councils of people's deputies over executive authorities. For instance, the RF Congress of People's Deputies had the right "to take any decision within the RF jurisdiction." All appointments of the heads of regional administrations had to be approved by regional councils of people's deputies (with the exception of the period from November of 1991 till December 1, 1992, when the RF President had the right to appoint governors without such approval in the framework of his emergency powers). Since most regional councils supported the Communist majority, which had formed both at the RF Supreme Council, and the Congress of People's Deputies by 1993, conflicts between regional legislatures and the RF President's appointees were inevitable. No serious conflicts were registered only in parliamentary Republics (Altai, Bashkiria, Buryatia, Dagestan, Kabardino-Balkaria, Komi, Udmurtia, Khakasia, Chuvashia), and in Tatarstan, Khabarovsk Area, Nizhni Novgorod, Novgorod, Kamchatka, Sverdlov Regions. On the one hand, these statistics are not sufficient to make any conclusions, on the other hand, in a number of aforementioned regions conflicts between legislatures and executive authorities took place later (for instance, the Republic of Altai, Kamchatka and Sverdlov Regions). Therefore, in case the statistics for the period from 1991 till 1993 are taken into account, the aggregate data for the decade will show that conflicts between legislative and executive authorities took place in all regions with only one exception. On the other hand, in many regions conflicts had ceased after the councils were dissolved in 1993 and new legislatures were formed in accordance with the new RF Constitution in 1994 through 1995. It seems more appropriate to refer to these regions as non-conflict ones. Therefore, in cases there were registered only isolated facts of opposition, which did not disrupt the overall consensus of legislatures and executive authorities, we do not make comments on the situation and list such RF subjects as "non-conflict" regions.

A noticeable fact is a frequent occurrence of conflicts between heads of regional administrations and mayors of regional centers. Such conflicts arise even in spite of the fact that before federal law “On Local Governments” came into force the overwhelming majority of the heads of municipalities had been appointed to their posts by governors themselves (the most illustrative examples of mayors appointed from the number of public officials close to governors turning into governors’ most bitter political rivals are Ekaterinburg mayor Chernetsky and Omsk mayor Roschupkin). It seems that after consolidating their positions as elected officials mayors became independent political figures, often in opposition to governors. We review these facts as a manifestation of budgetary redistribution conflict between the interests of large towns (donors of regional budgets) and the interests of subsidized rural localities and small towns.

1. Adygey. A stable political regime had existed in the region over a long period. However, at end-1999 President A. Dzhzhirymov opposed the appointment of a representative of the RF President in the Republic demanding (in violation of the RF Constitution) the right to approve the nomination. There was also registered a conflict between the regional administration and structures of the Federal Security Service (FSS), which accused the administration of complicity in organized crime.

2. The Republic of Altai. The political stability in the region was disrupted in 1996 – 1997 as the parliamentary majority split, what resulted in the resignation of the government headed by V. Petrov and the formation of a new government under V. Volklov. The situation aggravated even more after V. Chaptynov, Head of the Republic, died in 1997 and the leader of liberal opposition (S. Zubakin) was elected to this post. Since 1998, there has existed a serious conflict between the Head of the Republic and the conservative majority of the State Assembly.

3. The Republic of Bashkortostan. Since 1991 the regional elite headed by M. Rakhimov, Chairman of the Supreme Council, had pursued a policy toward the Constitutional secession from the RF; however it split after the new RF Constitution came into force. A part of regional elite headed by A. Kopsov (Prime Minister in 1992 through 1994) and his successor to this office M. Mirgazyamov criticized the separatist course taken by M. Rakhimov. However, the majority of the Bashkirian Supreme Council did not support them and they had to resign. In the course of the presidential elections of 1998 M. Rakhimov was the only candidate (his major contenders were prohibited to participate in violation of the decision of the RF Supreme Court), and with the connivance of the Federal Center an authoritarian regime in Bashkortostan became a totalitarian one under “Presi-

dent” M. Rakhimov. The elections in the Republic became just a formal event. However, the struggle of contending clans belonging to the Rakhimov’s retinue aggravated and the political situation remained unstable. For instance, much spoken of resignations of I. Gabitov, Head of the Presidential Administration, and Yamaltdinov, mayor of Ufa, took place in the period from 1999 till 2000.

4. Buryatia. In 1994 through 1998, there existed a conflict between the Republican government and mayor of Ulan Ude V. Shapovalov. In 1998, the President of Buryatia dismissed Shapovalov (although this procedure was not stipulated by the regional legislation). However, due to the fact that Shapovalov failed as mayor (most of the time he was out of the town) the court sustained the decision of the President. Later Shapovalov was convicted for financial offences.

5. The Republic of Dagestan. In formal terms the executive and legislative authorities of the Republic have been closely cooperating (under the control of the ethnic Dargin clan headed by M. Magomedov (Chairman of the State Assembly) and S. Amirov (mayor of Makhachkala). An attempt to nominate an alternative candidate (Sh. Musayev) for this office in 1998 failed, he was accused of embezzlement and is wanted by the police). Since the elections in the Republic are a pure formality (Dagestan authorities completely control the voting), while the supreme governing body of Dagestan – the State Assembly is formed according to the principle of ethnicity (each ethnic group living in Dagestan has a representative in the State Assembly although the respective election procedure is not formalized; major offices are distributed according to the same principle of ethnicity) non-Constitutional forms of conflict of different ethnic clans, such as rebellions (the capture of the building of the Dagestan government by supporters of the Lezgin ethnic clan assisted by some representatives of the Nogai and Avar clans in 1998), assassinations of political figures (the assassinations of M. Gamidov, Finance Minister of Dagestan, and Abubakarov, Dagestan Mufti, in 1998; there were also about ten attempts on the life of S. Amirov, mayor of Makhachkala, as a result he became a disabled person), usurpation of power by non-Constitutional bodies (villages of Karamakhi and Chabanmakhi in 1996 through 1999) have been playing the major role. Therefore, the Republic of Dagestan, where a consensus of governing structures formally exists, in fact resembles Lebanon in late 1970s.

9. Karachayevo - Cherkessia. Immediately after the RF President appointed V. Khubiev (a representative of the second largest ethnic group of Karachai) as the Head of the Republic, there broke out a conflict with the Cherkess minority, whose leader S. Derev was elected as Cherkessk mayor in 1997, what resulted in the conflict between the Republican government and the municipality. In 1996,

Cherkess territories made an attempt to secede from the Republic in a non-constitutional way (protest actions). As a result of the Cherkess minority actions, the election of the Head of the Republic was set for year 1998; however, G. Semenov (a Karachai) took the office. Observers registered numerous violations in the course of the election; the results were disputed in courts. For two years the Republic was under the direct authority of the RF President, who appointed V. Vlasov as the Acting Head of the Republic. At the same time actions for the succession of Cherkess and Abazin districts from the Republic intensified. At present, G. Semenov is recognized as the Head of the Republic; however the political conflict continues. There was also registered a conflict between the regional authorities and the Federal Center. For instance, regional administration was strongly displeased with the activities of A. Volkodav (Minister of the Interior in 1992 through 1994 and in 1999).

10. Karelia. In 1998, Petrozavodsk mayor S. Katanandov succeeded President V. Stepanov (there existed a conflict between Stepanov and a number of heads of municipalities, including Katanandov) as the President of the Republic. However, the Karelian Parliament does not support the new President, who is also drawn into a conflict with new Petrozavodsk mayor A. Denin.

12. Mariy El. In 1996, V. Kislitsin succeeded V. Zotin as the President of Mariy El. The new President dismissed practically all public officials; however he failed to obtain the unconditional support of the parliamentary majority. The new President was also drawn into a serious conflict with heads of municipalities, including the mayor of Yoshkar Ola, the Republican capital. There were also registered conflicts between the regional administration and the Federal Center officials (V. Grigoryev and A. Ivanov, Ministers of the Interior, and Kondratov, who headed FSS in 1996 through 1998. These officials accused the regional authorities with complicity in organized crime.

13. Mordovia. The conflict between V. Guslyannikov elected as the Republican President in 1991 and the Communist majority of the Mordovian Supreme Council resulted in the elimination of the office of President, the Republic was headed by N. Biryukov, the Chairman of the Supreme Council. The RF Constitutional Court recognized that this decision was made in accordance with the RF Constitution. After the next election, N. Merkushkin succeeded N. Biryukov. In 1997 through 1998 a totalitarian regime formed in Mordovia, the authorities controlled the voting. V. Volkov, the Republican Prime Minister, established the pro-government "Edinstvo (Unity) faction in the Parliament, although the President was against this. At this time, it is difficult to judge if the conflict will aggravate or settled.



14. The Republic of Sakha.

15. North Osetia. The first conflict between the branches of authority had place in 1994, when A. Glazov (the Chairman of the Supreme Council) and S. Khetagurov (Head of the Republican Government) contended the office of President. Glazov won the elections and Khetagurov had to resign. In 1998, A. Dzasokhov succeeded Glazov; however the parliamentary majority remained loyal to the former President. The new President won the majority in the Parliament only in 1999.

17. Tyva. The region witnessed a conflict between President Sh. Oorzhak and A. Kashin (mayor of Kyzyl, Tyva capital town, elected in 1996). In 1999, there was an attempt to dismiss Kashin (in violation of the law); however he kept his office by a court decision. G. Epp, the Kyzyl vice-mayor, was murdered in 1999 after he exposed facts of corruption within the Republican administration.

18. Udmurtia. Udmurita (until 2000 a parliamentary Republic) experienced a permanent conflict between the legislature and executive authorities. In 1993 – 1994 the relations between V. Tubylov (the Chairman of the Supreme Council) and V. Volkov (Head of the Government) worsened. Since neither party had the stable majority in the Parliament, an attempt to dismiss Volkov failed. In 1995 A. Volkov was elected as the Chairman of the Supreme Council (the supreme governing body until 2000). However, the dynamics of interests of different groups within the coalition, which supported Volkov, forced him to pursue a compromise appointment policy. Prime Minister P. Vershinin, who supported interests of rural population and ethnic Udmurts, was replaced with G. Ganza, who oriented towards interests of the enterprises belonging to the military and industrial complex (MIC). This appointment policy resulted in conflicts. In 1999 a new Parliament was elected, the supporters of Volkov formed the parliamentary majority. However, a considerable group of deputies supported A. Saltykov (mayor of Izhevsk). Three candidates contended the office of President in 2000 (A. Volkov, P. Vershinin, G. Ganza). A. Volkov won the elections. Since 1996 there have occurred attempts to eliminate municipal governments. For instance, the Supreme Council took a decision to appoint heads of municipal governments; however A. Saltykov (mayor of Izhevsk in late 1990s, head of the opposition to Volkov) successfully disputed this decision in the RF Constitutional Court. The Federal Center (for instance, V. Bulakin, representative of the RF President in the Republic) supported the mayor. Although Volkov won the support of all federal agencies in 2000, his conflict with Izhevsk mayor Saltykov continues.

19. Khakasia. In 1995 N. Bulakin and S. Bondarenko, who strongly opposed the Republican administration supported by holding company “Sibirsky Allu-

mini,” were elected as heads of two largest municipalities. Their conflict with the heads of the region (V. Shtygashev and his successor A. Lebed Jr.) persists. In 1998 S. Bondarenko lost the election, N. Bulakin retained his office. There were also registered conflicts with officials appointed by the Federal Center (V. Striga, representative of the RF President in 1996 through 1998, who supported the Sayanogorsk mayor, and N. Lyakh, head of the regional Federal Tax Police (FTP) office in 1996 through 1999).

20. Chuvashia. In December of 1993 there started an acute conflict between new Chuvashian President N. Fedorov and the Communist majority in the Republican Supreme Council. The Council strove to limit the authority of the President and to turn him into a ceremonial figurehead. Although the Communists lost the parliamentary elections in 1998, there appeared a new opposition. It was headed by newly elected Chairman of the Supreme Council L. Kurakov (the former Vice-President) and pursued the same policy as the Communists. The instability of relations between the authorities resulted in frequent changes of the Cabinet of Ministers. N. Fedorov was drawn into an acute conflict with Rudakov, the Chuvashian Prosecutor in 1994 through 1999 and even tried to dismiss him (going beyond his powers). In 1994 – 1995 there was also registered a conflict between N. Fedorov and the Republican Ministry of the Interior. Fedorov (in violation of the federal legislation) tried to appoint V. Antonov as the Republican Minister of the Interior. As a result of a compromise Antonov was appointed as a Deputy Minister and P. Dolgalev (officially nominated) took the office. In 1997 N. Fedorov could appoint Antonov as the Minister of the Interior.

21. The Altai Area. Altai governors V. Raifikesht and V. Korshunov (in 1994 through 1996) were drawn into an acute conflict with the Communist majority in the Area Council, headed by A. Surikov. In 1996 Korshunov lost the elections to Surikov, who became the new governor. However the conflict continued, since Raifikesht was appointed as the representative of the RF President (he held this office till mid-1999) and Korshunov took the office of the Head of the Altai office of the Federal Tax Police (till 2000).

22. The Krasnodar Area. In 1992 liberal governor V. Dyakonov was dismissed as a result of his conflict with the Area Council and N. Yegorov, head of the Krasnodar government. N. Yegorov was appointed as the new governor. Both N. Yegorov and his successor Ye. Kharitonov (since 1994) were drawn into an acute conflict with the majority in the Council (members of CPRF and LDPR). A new conflict erupted as N. Kondratenko (a well known National-Communist) was elected to the office of governor. The Krasnodar administration under Kondratenko was drawn into a conflict with municipalities (V. Samoilenko, mayor of

Krasnodar, V. Prokhorenko, mayor of Novorossiysk, V. Gorov, head of the Ust Labinsk District, and others). The governor accused the opposition of “Zionism,” betrayal of Russia’s interests, etc. There also took place a conflict between Kondratenko and V. Spiridonov (representative of the RF President in the area). As a result of the conflict all Kondratenko’s adversaries were dismissed (except Prokhorenko, who became a supporter of the governor). In 2000 the widely popular mayor of Krasnodar was prohibited to participate in the elections by a court decision issued just a few days prior to the date of the elections (he was accused of bribing the voters, because he presented a TV set to a retired woman). The Federal Center represented by S. Shoigu publicly approved Kondratenko’s policy.

23. The Krasnoyarsk Area. There was registered a conflict between Governor V. Zubov and the administration of Norilsk (a town in the Krasnoyarsk Area). The Norilsk mayor was accused of a crime, listed among persons wanted by the police and later arrested. He was acquitted by a court decision, however under governor Lebed, who succeeded Zubov in 1998, he was convicted and had to resign. Governor Lebed was drawn into an acute conflict with the Legislative Assembly of the Area because of his economic and appointment policies. In 1998 the governor (going beyond his powers) dismissed K. Protopopov (head of the regional office of the federal State TV and Radio Company (STVRC)). As a result of this conflict there was appointed a head of the office loyal to the governor.

24. The Primorski Area. The conflict between governor Nazdratenko (appointed by the RF President in 1993) and Vladivostok mayor V. Cherepkov (elected in 1995) was the most widely publicized event of this kind. In early 1994 Nazdratenko succeeded, V. Cherepkov was accused of bribery and dismissed from his post. As it was found later, the accusation was false. In 1996 Cherepkov was reinstated as the Mayor of Vladivostok by a court decision. The next elections were thwarted by the administration. Election commissions and courts controlled by the administration prohibited V. Cherepkov to participate in the elections, and the electorate protested by voting down all remaining candidates. A placeman of Nazdratenko was appointed as the acting mayor. In 2000 he succeeded in legalizing his status in the course of falsified “elections.” Since mid-1990s there also broke out a conflict between the governor and V. Vedernikov, mayor of Ussuriysk. Yet another conflict (between the governor and the regional Duma) lasted from 1997 to 2000, when as a result of the elections of 1997 there existed an unstable anti-governor majority. Since 1994 Nazdratenko has been drawn into a conflict with V. Kondratov, head of the regional FSS office. In 1996 Kondratov was also appointed as the representative of the RF President in the

Primorski Area and controlled the governor's work, including the financial matters. In 1998 Kondratov was dismissed. The conflict between governor Nazdratenko and the Primorski Area Arbitration Court headed by T. Loktionova worth a special mention. The governor has accused the court of... the compliance with laws since the court sustained bankruptcy claims against local enterprises.

25. The Stavropol Area. Under governors Kuznetsov and Marchenko the regional elite maintained relative unity until 1995. After Communist A. Chernogorov was elected as the Stavropol governor in 1996, there broke out a conflict between the new governor and P. Marchenko, who was appointed as the representative of the RF President in the Area, and his placemen in the local structures of federal agencies (A. Salyukov, Stavropol Area prosecutor, and Kovalev, head of the regional Federal Tax Police office). Both Salyukov and Kovalev retained their offices, while Marchenko was dismissed in 1998. The governor was drawn into an acute conflict with M. Kuzmin (mayor of the town of Stavropol) because of contradictions concerning redistribution issues since 1997.

26. The Khabarovsk Area. Contradictions concerning redistribution issues resulted in a conflict between the governor and P. Filippov, mayor of Khabarovsk in 1994 through 2000.

27. The Amur Region. In 1994 through 1996 there were registered serious conflicts between governors (Polevanov, Dyachenko, Lyashko) and the majority of the regional Council. There were also conflicts between governors and federal agencies (Ministry of the Interior, FSS, Federal Tax Police). In early 1997 newly elected governor A. Belonogov reconciled with the regional Council; however he was drawn into a conflict with O. Ostroumov, chairman of the regional State Property Committee. The conflict has continued for two years and resulted in the dismissal of Ostroumov. The governor is also drawn into a conflict with A. Kolyadin (head of the Blagoveshchensk local government) and S. Ponasova (head of Belogorsk local government).

28. The Arkhangelsk Region. Since 1996, when the RF President dismissed governor P. Balakshin, there have been registered serious conflicts in the region. A. Yefremov was elected as governor in 1996, while P. Bakashin became the mayor of Arkhangelsk. Since that time they have been the parties of an acute conflict. There were also registered complicated relations between the governor and the mayor of the town of Mirny.

30. The Belgorod Region. No conflicts have been registered in the region since Ye. Savchenko was appointed as governor in October of 1993 (he was elected to the same office in 1995 and reelected in 1999).

31. The Bryansk Region. In 1993 through 1996 governors V. Karpov, V. Barabanov, and A. Semernev was drawn into acute conflicts with the Communist majority in the regional Duma. The conflict was settled in 1996 as Yu. Lodkin was elected as the governor of the region. However, there broke out a conflict between the governor and Novotroitsk mayor Nesterov.

32. The Vladimir Region. Governor Yu. Vlasov (1991 – 1996) was drawn into a conflict with officials representing federal agencies: N. Yegorov (representative of the RF President), senior officers of the regional office of the Ministry of the Interior and regional Prosecutor's Office, the regional legislature. There broke out a conflict between N. Vinogradov, new governor of the Vladimir Region, and I. Shamov, mayor of the town of Vladimir, A. Rabin, mayor of Aleksandrov, and a number of other heads of local governments.

33. The Volgograd Region. There was registered an acute conflict between governor I. Shabunin (1991 – 1996) and Yu. Chekhov, mayor of the town of Volgograd. N. Maksyuta, Shabunin's successor, also was drawn into a conflict with the mayor of the regional capital. There also broke out an acute conflict between governor Maksyuta and I. Shiryayev, mayor of Volzhski (second largest town in the region).

34. The Vologda Region. In 1993 through 1996 there existed a conflict between governor N. Podgornov and V. Sudakov, the RF President's representative in the region. A conflict between the governor and Zolotov, the head of the regional Federal Tax Police office (at the moment he is the regional federal inspector) and the regional prosecutor took place in 1998 through 1999.

35. The Voronezh Region. There exists a conflict between governor Shabanov and officials of federal agencies V. Kulakov, head of FSS, Frolov, (former regional prosecutor), Dementyev, head of the regional office of the Ministry of the Interior.

37. The Irkutsk Region. There existed a conflict between the regional administration and the office of Bratsk mayor in 1994 through 1997.

38. The Kaliningrad Region. Under governor Matochkin (1991 – 1996) there was registered only one conflict – the governor failed to dismiss Kustov, head of the regional State Property Committee. Governor Gorbenko (1996 – 2000) was drawn into a serious conflict with the regional Duma (the governor openly ignored the Duma), and with federal officials: Orlov, representative of the RF President, Sorokin, former head of the regional office of the Police for Organized Crime (POC), Pivotrak, head of the Control and Audit Agency (CAA) of the Finance Ministry, Vasilyev, head of the regional State Tax Service (STS), and Yu. Savenko, mayor of Kaliningrad.

41. The Kemerovo Region. Governor Kislyuk (1991 – 1996) was drawn into an acute conflict with the regional Council. The conflict ceased under Kislyuk's successor Tuleev (1996 – present time); however, this conflict broke out again soon in spite of the fact that previously the same regional Council had elected Tuleev as its chairman. In the course of 1998 elections Tuleev succeeded to ensure a loyal legislature. In 1994 through 1999 regional governors were drawn into a conflict with regional prosecutor V. Simuchenkov.

42. The Kirov Region.

43. The Kostroma Region. In late 1995 – early 1996 governor Arbuzov was drawn into a conflict with Kostroma mayor B. Korobov. However, the new governor elected with Korobov's support also became his opponent in two years.

44. The Kurgan Region. In 1991 through 1996 the region experienced a conflict between governors V. Gerasimov (succeeded by A. Sobolev) with the majority in the regional Duma, controlled by the left-populist opposition headed by O. Bogomolov. The governor was also drawn into a conflict with V. Yusov, head of the regional State Anti-Monopoly Committee. The conflict resulted in the dismissal of Yusov. In 1996, O. Bogomolov was elected as the governor. However, he was drawn into a conflict with the new legislature (it was elected on the same day with the governor in 1996) in 1998 – 1999. The conflict aggravated as the governor 2000 election campaign developed. The speaker of the regional Parliament L. Yefremov lost the elections. The new legislature elected in 2000 turned out to be loyal to the governor.

45. The Kursk Region. After A. Rutskoi was elected as the governor in 1996, the regional administration was drawn into acute conflicts with regional structures of the federal government – the regional office of the Ministry of The Interior (A. Volkov), FSS (V. Surzhikov), prosecutor's office (A. Tkachev), the State Tax Service (N. Dolgikh). It is an interesting fact, that in 1998 – 1999 there erupted a conflict between the governor, the regional Duma, and S. Maltsev, mayor of Kursk, although originally both the mayor and the majority in the legislature strongly supported the policy pursued by A. Rutskoi.

46. The Magadan Region. The governor was drawn into a minor conflict with the regional legislature in 1998 through 2000.

47. The Nizhny Novgorod Region. In 1993 – 1994 there broke out a conflict between D. Bednyakov, mayor of the town of Nizhny Novgorod, and governor B. Nemtsov, which resulted in the resignation of the former. The political instability in the region developed in 1997 after B. Nemtsov left his office for a post in the federal government, and I. Sklyarov was elected as the governor in his stead in 1998. Sklyarov could mobilize the support of only a part of the regional

elite. Yu. Lebedev, representative of the RF President in the region criticized I. Sklyarov. In 1998, there erupted a scandal – entrepreneur A. Klimentyev with a record of conviction, who sharply criticized the regional authorities, was elected to the post of mayor. The results were disputed in the court, which ruled to rescind the vote basing rather on political than legal grounds (since no serious violations characteristic of many other regions were registered in the course of the election). Later Klimentyev was convicted of financial offences. In September of 1998 Yu. Lebedev was elected as the mayor of Nizhniy Novgorod, he continued to pursue the course of confrontation with the regional administration. The governor also was drawn into a conflict with A. Fedotov, regional prosecutor, who often put forward claims against governor's decisions. S. Kirienko, who was appointed as the representative of the RF President in the Povolzhski Okrug in 2000, has also often criticized the regional administration.

48. The Novosibirsk Region. In 1996 through 1999 there existed an acute conflict between V. Tolokonski, mayor of Novosibirsk, and governor V. Mukha (the latter had the active support of the majority in the regional Council) rooted in classical “redistribution” ground. As a result, Tolokonski won the next governor elections and ensured that a loyal mayor was elected in his stead a year later.

49. The Omsk Region. In 1992 through 1994 the region experienced a serious conflict between L. Polezhayev, governor of the Omsk Region, and Yu. Shoykhet, mayor of the town of Omsk. In 1994 the governor initiated the suspension the mayor elections (Shoykhet had all chances to win) and Shoykhet's resignation. The governor appointed a loyal mayor (V. Roshchupkin). However, by 1996 the mayor came under the influence of interest groups other than the governor's. There broke out a most acute conflict aggravated by the redistribution factor. Heads of local offices of federal structures supported the mayor, while regional offices of the Federal Center allied with the governor. In 2000 the governor with the assistance of the Federal Center achieved a decisive victory over the interest groups rallied around the mayor. Omsk mayor Roshchupkin had to resign at the end of 2000 and was given an office in Moscow.

50. The Orenburg Region. In 1995 governor V. Yelagin was drawn in an acute conflict with G. Donkovtsev, mayor of the town of Orenburg, who had the support of the Communist party. While on the whole the federal structures in the region were loyal to the governor, the regional Federal Tax Police office actively opposed the regional administration. Although A. Chernyshev, a governor's ally, succeeded Donkovtsev as the governor at the end of 1999, a year later Yu. Mishcheryakov, an opponent of the governor, was appointed at the post of the Orenburg mayor.

51. The Orlov Region. In 1993 through 1995 there existed a conflict between governor Stroyev and N. Yudkin, representative of the RF President in the region. The conflict resulted in the resignation of Yudkin.

52. The Penza Region. In 1993 through 1996, governor A. Kovlyagin and the regional legislature were drawn in an acute conflict with A. Kalashnikov, who had the support of business circles. V. Logunov, head of the regional FSS, went over to the opposition in 1996. In 1998, A. Bochkarev won the governor elections with the support of the opposition and the conflict faded away.

53. The Perm Region. Under governors V. Kuznetsov and his successor (elected in 1996) G. Igumnov the regional elite maintained unity in 1992 through 1999. First contradictions emerged in 1996, as G. Fiel (an ally of the governor) lost the Perm mayor elections to G. Trutnev. However, it was only a minor conflict, and soon the regional elite absorbed the new mayor. A serious conflict (which may seriously affect the regional economy in the future) broke out in the course of the governor elections held in the late autumn of 2000. The head of the local office of the Ministry of The Interior and the regional prosecutor, loyal to the governor, were dismissed (V. Sikerin and V. Semenov). Their successors accused governor's daughter A. Arzumanova of abuses and even entered her name in the list of persons wanted by the police. Against this background there aggravated the conflict between the governor and Perm mayor G. Trutnev. As a result, G. Trutnev was elected as the governor.

54. The Pskov Region. The political and administrative stability in the region shattered after Ye. Mikhailov (LDPR) was elected as the governor in 1996. Mikhailov was drawn into an acute conflict with Yu. Shadrin, head of the regional office of the Ministry of The Interior, and V. Fedorov, head of the regional State Anti-Monopoly Committee, who opposed the governor's policies to monopolize the regional alcohol and food markets under state-owned structures. A criminal case was initiated against vice-governor M. Gavuns. In 1998 the governor made Shadrin to resign. The governor was also drawn into an acute conflict with A. Prokofyev, mayor of Pskov. After M. Kharonen succeeded Prokofyev as the mayor in early 2000, the conflict somewhat abated, although some contradictions (including public) persisted.

55. The Rostov Region. Rostov governor V. Chub was drawn into a conflict with V. Zubkov, representative of the RF President in the region, in 1993 through 1995.

56. The Ryazan Region. In 1992 through 1994 the region experienced an acute conflict between governor L. Bashmakov and Ryazan mayor V. Ryumin. The conflict was over as the RF President practically simultaneously dismissed both of them in 1994. After Communist V. Lyubimov was elected to the office in 1996, he was drawn into a conflict with the former governor G. Merkulov, who represented the RF President in the Ryazan region until 1999. The confrontation of Lyubimov with Chairman



of the regional court R. Gostev (in 1996 through 1998) worth a special notice. In 1999 the governor made use of the RF Supreme Court's qualifications panel to dismiss Gostev. The contradictions between Ryazan mayor P. Mamatov (CPRF) and the majority in the Ryazan Town Council controlled by V. Ryumin (chief contender of Lyubimov at the governor elections of 2000) may result in a new confrontation.

57. The Samara Region. The regional elite maintained a relative stability. The jealousy of governor Titov towards O. Sysuev (Samara mayor in 1992 through 1996) was within the bounds of reason. In 1999 – 2000 the regional administration was drawn into a conflict with Ye. Grigoryev, head of the regional FTP office. The conflict resulted in the transfer of Grigoryev to another office.

58. The Saratov Region. The elite of the Saratov Region was seriously divided in the early nineties. Governor Yu. Belykh was drawn into an acute conflict with Yu. Kitov, mayor of Saratov, and V. Bulgakov, head of the regional office of the Ministry of The Interior. In 1994, Kitov, accused of large misappropriations committed suicide. The new town administration remained rather loyal to the governor. On the other hand, there persists a conflict between the governor and V. Golovachev (representative of the RF President in the region), who sought the office. As a result the RF President dismissed both of them on the same day in 1996. However, the conflict with of the regional office of the Ministry of The Interior did not abate even after D. Ayatskov was appointed, and later elected to the post of the governor. In 1997 Bulgakov was dismissed. D. Ayatskov was drawn into a conflict with Yu. Akseenko, mayor of Saratov, and A. Yatskov, head of the regional FTP agency, who accused the governor and his retinue of connections with shadow businesses.

59. The Sakhalin Region. In the early nineties the region experienced a most acute conflict between the governor (V. Fedorov) and the regional legislature, which resulted in the resignation of the governor. The administration under new governor Ye. Krasnoyarov was drawn into an acute conflict with the Yuzhno Sakhalinsk mayor's office, headed by I. Farkhutdinov. In 1995, the conflict resulted in the resignation of Krasnoyarov, Farkhutdinov was appointed in his stead. However, F. Sidorenko (former Krasnoyarov's deputy), elected as the Yuzhno Sakhalinsk mayor in 1996, the conflict erupted again, now in the reverse order. The governor was also drawn into a conflict with N. Dolgikh, head of the local government of the Kholm District, and V. Zema, the head of the local government of the Yuzhno Kurilsk District. The specific feature of the Sakhalin conflict was that influence of opposing pressure groups and personal relations prevailed over redistribution issues as its major factors.

60. The Sverdlov Region. Popular governor E. Rossel, who had sought the status of Republic for the Region with the support of the regional Council, was dismissed in

1993. The majority of the new legislature elected in 1994 supported Rossel and elected him as the speaker of the regional parliament. In 1994 and 1995 the regional legislature was drawn into a prolonged conflict with the Sverdlov administration under governor A. Strakhov. The Parliament demanded to elect the governor by the popular vote. The elections took place in August of 1995, Rossel won. In 1996 governor Rossel was drawn into a conflict with A. Chernetski, mayor of Sverdlovsk. The conflict has been underway ever since. A conflict between governor E. Rossel and V. Mashkov, representative of the RF President in the region, persisted from 1995 till 1997, when the parties settled it. In 1996 through 1998 the governor was drawn into a conflict with regional law enforcement agencies. A. Rudenko, head of the regional POC office, and a number of senior police officers accused the governor and V. Krayev, head of the regional office of the Ministry of the Interior, of connections with organized crime. The dismissal of Krayev in 1998 is the proof that these accusations were justified. However, the governor was discontented with the new head of the regional office of the Ministry of the Interior. In 2000 governor Rossel was drawn into a conflict with the new head of the Sverdlovsk regional FSS agency. As P. Latyshev was appointed to the post of the federal inspector of the Ural Okrug in 2000, there started a conflict between him and governor E. Rossel. The relations between the legislature and the administration worsened in the course of rotations of 1998 and 2000, since Rossel lost the majority in both chambers of the regional Parliament. This development has considerably hampered the legislative process.

61. The Smolensk Region. In 1994 through 1996 the region experienced a conflict between M. Zysmanov, mayor of the town of Smolensk, and governor Glushenkov supported by the Communist majority of the regional Council. The conflict was settled after the Smolensk Town Charter was amended. According to the amended Charter the town Council (also dominated by Communists) obtained the right to elect the mayor from its members (previously mayor had been elected by the popular vote). A. Prokhorov, a governor's ally, became the new mayor. In 1993 through 1995 the governor was also drawn into a conflict with A. Manoim, representative of the RF President in the region, and Meshcheryakov, head of the regional STVRC office (the conflict resulted in the dismissal of both officials in 1996). No conflicts between A. Prokhorov and Glushenkov were registered in 1996 through 1998 in spite of the fact that Prokhorov run against Glushenkov at the governor elections. In 1999 and 2000 there aggravated a conflict between the regional administration and the regional offices of the federal authorities (POC, regional prosecutor's office, regional office of the Ministry of The Interior, and the regional FSS agency), who accused the regional administration of close connections with organized crime. The conflict has been underway ever since. The conflict brought about the arrest of some senior officers of the

regional POC agency and Yu. Balboshkin, first vice-governor (he was accused of other crimes than POC officers). The conflict has not been settled yet.

62. The Tambov Region. In 1994 through 1995 there was registered an acute conflict between the regional administration and the Communist majority of the regional Duma. The Duma tried to broaden its powers of disposal (including the control over the appointment policies); however, the RF Constitutional Court ruled against the Duma. As the Chairman of the regional Parliament A. Ryabov (CPRF) was elected to the post of the governor in 1996, he was drawn into a conflict with V. Koval, mayor of the town of Tambov. At end-1996 Koval was appointed as the representative of the RF President in the region. There also took place a conflict with Smolyakov, head of the regional STVRC office (dismissed in 1996).

Governors had strained relations (sometimes resulting in open conflicts) with V. Pronin, who held the post of the head of regional office of the Ministry of The Interior over the whole period under review, and V. Dzhurayev, head of regional POC agency in 1994 through 1998.

63. The Tver Region. A number of regional officials of the federal government (V. Parchevski, regional prosecutor in 1994 through 2000, G. Vinogradov, head of the regional FSS office till 1999, senior officers of the regional POC agency) allied for the struggle against economic and appointment policies pursued by V. Platov (elected as the Tver governor in 1995). A number of Platov's deputies were accused of financial offences and convicted. Governor Platov was also drawn into conflicts with the Tver mayor (A. Belousov), a number of heads of district governments, and even his own deputies. For instance, his former first deputy (elected to the RF State Duma) campaigned against Platov just before the second round of 1999 governor elections.

64. The Tomsk Region. There are registered strained relations between Governor V. Kress, who held the post for the whole period under review, and A. Makarov, Tomsk mayor since 1995. The governor was drawn into an acute conflict with A. Deyev, head of the territorial Fund for Compulsory Health Insurance (FCHI). The conflict resulted in the dismissal of Deyev.

65. The Tula Region. Governor V. Starodubtsev (elected in 1997) was drawn into an acute conflict with V. Karpinski, head of regional office of the Ministry of The Interior, who participated in the investigations concerning enterprises Starodubtsev controlled before his election. The conflict resulted in the dismissal of Karpinski and the appointment to this post of an official loyal to Starodubtsev.

66. The Tyumen Region. In 1995 the governor was drawn into a conflict with G. Raykov, mayor of the town of Tyumen. The conflict resulted in the dismissal of the mayor. In 1997 there broke out a conflict between the governor and the new regional

Legislative Assembly dominated by deputies controlled by autonomous district administrations (see the special report for details).

67. The Ulyanovsk Region. In 1994 through 1996, governor Goryachev was drawn into a conflict with I. Stupnikov, representative of the RF President in the region. The governor opposed the election I. Marusin to the post of the Ulyanovsk mayor; however, Marusin won the election, what resulted in an acute conflict between the governor and the mayor.

68. The Chelyabinsk Region. Governor P. Sumin (elected in 1996) was drawn in a conflict with a number of regional officials of the federal government: I. Belyakov, head of the State Property Committee, and the head of the regional STVRC office (in 1998 the governor dismissed him from his post going beyond his authority). Nevertheless, both conflicts resulted in the dismissal of federal officials disloyal to the governor.

69. The Chita Region. In 1994 through 1996 governor V. Ivanov was drawn into an acute conflict with the majority of the regional Duma.

70. The Yaroslavl Region. There was registered a conflict between A. Lisitsyn (Yaroslavl governor over the whole period under review) and V. Varukhin, representative of the RF President in the region in 1992 through 1995. In 1998 – 1999 the governor was drawn into a conflict with the majority of the regional Legislative Assembly in spite of the fact that the Assembly was loyal to the governor at the time it was elected.

71. The City of Moscow. The only conflict registered in Moscow in the early nineties was that between the Moscow mayor's office and A. Novikov, head of the territorial State Anti-Monopoly Committee. The latter obtained court rulings suspending hundreds of decisions approved by the Moscow government in 1993 through 1995. Novikov was dismissed in May of 1995. No conflicts within the regional authorities had been registered until the dismissal of the heads of the city offices of the Ministry of the Interior and FTP loyal to the Moscow government.

72. The City of St. Petersburg. An open conflict within the regional authorities existed only in 1998, when the St. Petersburg mayor's office was concerned about the investigations into well-publicized crimes conducted by A. Ponidelko, head of the city office of the Ministry of The Interior. The conflict resulted in the dismissal of Ponidelko.

## Supplement 4. Methodological Guidelines – Instructions on Trips to Regions<sup>13</sup>

### Preparation of Trips

To arrange a meeting (to have talks) with a colleague having influence and connections in the region two weeks prior to the trip.

To request this colleague to provide references to be submitted to local experts on economic, legal and political matters, businesspersons and any other experts the colleague thinks may be useful; if possible, to arrange meetings at the regional (local) statistical agency, land committee, justice administration.

### *Purchase of Information*

Local press, including advertising publications

Statistical materials (including data on districts – are usually much cheaper than in Moscow)

### *Interviews*

Managers and experts of real estate agencies

Most popular purchases

Most popular, prestigious and least popular, prestigious areas; expert assessment of reasons why an area is popular; major problems of local business.

Business prospects by the owner's assessment (Growth – optimism – pessimism – ambiguity); if possible – major scenarios.

Managers and experts of construction businesses

Major problems concerning the approval process for documentation; estimates of transaction costs borne in relation to the authorities (in per cent of construction costs); most important technical and economic specifics of this business in the region.

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<sup>13</sup> as adjusted for the results of the first trip

### Managers and experts of travel companies

Business dynamics (prior to August of 1998, after August of 1998)

Dynamics of local consumer preferences. Business prospects as assessed by the owner (Growth – optimism – pessimism – ambiguity); if possible – major scenarios.

### Lawyers Fees

Qualitative assessment of the specifics of local clients; the most difficult and typical cases; major problems in relations with the judiciary, prosecutor's office and law enforcement agencies; assessment of the problems experienced by local small and medium-sized businesses; *availability of private arbitration institutions (courts of arbitration), etc.; availability of same-purposed illegal institutions (in the latter case yes or no answer); the same question shall be asked of all entrepreneurs; availability of consumer protection organizations.*

### Human Rights Organizations

Major activities of the organization; number of cases (if any), including those won. Description (copies of documents) of most important and illustrative cases. Presence of other human rights organizations in the region (contacts and relations with them), presence of friendly public and political structures; relations with the authorities. Relations with businesses (assistance from businesses and protection of rights of businesspeople as a separate line of the organization's activities, cases won – yes/no). Typical cases.

Managers and experts of private communications companies (cellular, paging communications, Internet-providers, others).

Relations with local Svyazinvest structures, other large federal companies.

Relations with the Federal Security Service (FSS, *Russ. abbr.* FSB)

Business prospects as assessed by the owner (Growth – optimism – pessimism – ambiguity); if possible – major scenarios.

### Municipal Services – Housing and Public Utilities

Debt to Gazprom and United Energy System (UES). The state of the housing and public utilities (HPU) market in town. Availability of projects concerning the technical re-equipment of town's HPU. Available financing sources (if any).

### Land Committee

Land market dynamics (assessment); quantitative data (statistics), if such data are not available to find out if it is possible to purchase this information, on what conditions; the structure of landed property and its dynamics over last eight years.

### Vendors

Duration of operating the business, evaluation of business prospects and the relations with the authorities (taxes, inspections (what are responsible agencies, licenses). Estimates of the share of expenditure for settling administrative problems, including payments to illegal structures) in total costs (expenditure, including the purchase of merchandize).

### Taxists (other individuals rendering similar services)

Duration of operating the business. The share of expenditure for the traffic police (GIBDD) and other regulating authorities, including illegal structures in the total costs (including purchase of fuel, spare parts, repairs, savings for a new vehicle).

## Observations

### Trade

Developed networks of new shops (pavilions, capital buildings, street booths, movable booths, kiosks). Availability of trade services in the evening, at night, on week-ends. Availability (and popularity, in quantitative terms) of small-scale wholesale market-places (register prices of major meat and dairy products, vegetables, groats).

Estimates of the number of customers per hour (fixing the day of week and the time of observation) (the form is supplemented).

### Cafes, Restaurants

New establishments. Local experts' qualitative assessments. Distribution across the town's territory (new establishments including). Competition levels (more than one establishment of a similar price and service level less than 15 minutes walk – one kilometer away) (the form is supplemented).

### Transportation

(taxi, route taxi – minibuses, municipal vehicles – prices; availability of “commercial” transportation using the bus fleet owned by the municipal organizations on standard municipal routes; availability of municipal route taxis – minibuses; quantitative assessment of mass transit schedules; interview ten to twenty persons on passenger transport problems in the town).

### Militia

Identity checks on the racial basis. Open extortion from vendors. How many times your papers were checked during the trip? Militia patrols in the streets: often, seldom, at day-time, at night. How widely do uniformed and armed with service-issued weapons militia officers practice the guarding of private shops and other establishments; how many times did you encounter militia officers engaged in such practices during your trip?



## Supplement 5. Report on Perm and Tumen Regions<sup>14</sup>

### Ownership Rights and the Process of Ownership Rights Redistribution

The information about a considerable number of transactions carried out in strict compliance with the legislation currently in effect has been collected. No property transfers infringing upon owners' rights have been found out.

#### Bankruptcies

The number of petitions in bankruptcy submitted to arbitration courts amounted to 3740 in 1996, 5687 in 1997, 12781 in 1998, including 151 petitions coming from single-enterprise towns and 157 petitions concerning debtors *in absentia*, or debtors being in the process of liquidation. Proceedings were initiated in 8337 cases, including 4893 cases, in which supervision procedures were introduced. The number of bankruptcies amounted to 4747, including 1896 bankruptcies were outcomes of supervision and 339 bankruptcies were outcomes of external management. External management was introduced in 2001 cases, of which number 69 cases were terminated because of recovered solvency (including three cases in the Perm Region). As of January 1, 9919 cases were examined by courts, of which 61.6 per cent were at the stage of bankruptcy proceedings and 15.3 per cent at the stage of external management.

(*Russian Justice*, # 5, 1999, p. 58)

In 1997 legal proceedings were initiated against 140 legal entities of the Perm Region, and against 280 over nine months of 1998<sup>15</sup>.

By end-1998 courts subjected about 500 enterprises, firms, and organizations (taking into account cases initiated over previous years) to various procedures stipulated by the law on bankruptcy. Over 40 legal entities are under supervision of temporary managers, in 27 cases it was permitted to introduce external management, while all other debtors were ruled by courts insolvent; they were subjected to liquidation via bankruptcy proceedings.

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<sup>14</sup> short version

<sup>15</sup> These and further data are from the business supplement to *Zvezda* newspaper, February of 1999.

In 1998 the regional Arbitration Court rejected 50 petitions, i.e. each seventh petition. For instance, "Mezhregiongaz" attempted to initiate a bankruptcy case against JSC "Permenergo." However, the creditor applied for the immediate initiation of a bankruptcy procedure against "Permenergo" in stead of petitioning to initiate a bankruptcy case. The petition was rejected (however the natural gas enterprise retains the right to submit a corrected petition to the court).

Therefore court procedures of this type are applied in the region whose population makes 2.1 per cent of the total populace in the country somewhat more often than on the all-Russian average (3.5 per cent of cases approved for examination, in 1998, about 5 per cent of cases under examination by end-year). However, notwithstanding this "delay" of proceedings as compared to the average case terms in Russia at large, it is more important to note that large enterprises of the Perm Region are subjected to such procedures much more often (for instance, the public JSC "Gornozavodsktsement" – the only large enterprise in town - was subjected to the supervision of a temporary manager).

#### **Other Variants of Transfers of Ownership**

The largest manufacturer of upper clothes public JSC "Permodezda" passed into the hands of PFPG. However, even now 46 per cent of shares are diffused among the enterprise's employees. In mid-1990s the factory management could concentrate 72 per cent of shares in the hands of "insiders" by subscribing to shares according to the second option of privileges and by buying up shares at voucher auctions. The remaining shares were obtained by firm "EKS-Limited". Later these shares were transferred to the EKS's friendly bank "BiS-Kredit."

Inefficient management on the part of the "principal" resulted in deteriorating financial standing of the JSC. In 1998 the company operated in the red with debts and penalties totaling to over Rub. 19 million. The PFPG enterprises obtained the controlling interest in the factory after "BiS-Kredit" had gone bankrupt upon (apparently) buying up the employees' shares.

#### **Land Transactions**

A project aimed to inventory land and to make a land cadastre has been underway in the region for some years.

The Perm city administration planned to allocate \$ 350 thousand from the city budget in the framework of cooperation with IBRD. Although the information about actually allocated funds is not available, the project was still underway in 1999.

A similar project was financed from the regional budget.

An information and legal database on the regional land resources was compiled. The data on land permitted to charge fees for the land use; in 1992 through 1998 the budgetary revenues from this source totaled to over Rub. 2 billion. Meanwhile the collection of data continues, the information being adjusted to the development of market and infrastructure. For instance, as of now the land appraisal was completed in all 3200 regional localities. Currently a rural appraisal is underway.

The region provided for the organizational and technical basis of the land reform; an automated information system of land cadastre is in operation now.

The regional landed ownership structure is as follows: 15 per cent of land are in the federal property; 50 per cent are in regional property; 24 per cent are in municipal property, and 11 per cent of land are private property (1.4 million hectares).

The process of land redistribution is underway. It has resulted in owners and landholders forming a land market, including secondary market. There were issued 700 thousand land ownership certificates. Alongside with direct purchase and sale, lease, mortgage, and other transactions auctions and tenders are carried out.

While only 8 thousand hectares were realized via auctions in the Saratov Region in 1998 through 1999 (bringing Rub. 9.5 million to the regional budget), the Perm Region budgetary revenues obtained via auctions made Rub. 19 million (mainly due to sales of leasing rights). It shall be however noted that leasing rights for only 35 hectares were sold.

Appraisal activities are improving.

Purchased land plots the privatized enterprises are situated on are a part of privately-owned land. At the moment there are about 300 legal entities owning only 1.2 thousand hectares of land. Land is purchased at a slow pace even in spite of the fact that the tax on private land is lower than on leased land. Therefore a guideline of the land reform program is aimed to improve the legal base for those ready to privatize land. Apparently, registration procedures should be simplified, and land purchase on deferred payment plans (as well as other terms) facilitated.

A considerable number of transactions with various properties, numerous transaction types, availability of both a relatively efficient justice machinery, and non-state courts of arbitration demonstrate a relatively low level of transactional costs in the region.

## **Legal Protection**

(according to the information provided by the Perm Regional Human Rights Center, PRHRC PR department, regional press and other sources)

The effectiveness of legal protection is hampered by the insufficiently developed court system, overworked judges, delays in court proceedings, and insufficient competence of a majority of judges (former prosecutors and policemen); at the same time it shall be noted that somewhat increased inflow of lawyers has been registered since recently.

There are 434 judges in courts of general jurisdiction in the Perm Region. Ivan N. Bylev is the Chairman of the Perm Regional Court. At present there are 71 judges at the regional court (the court is short-staffed by one judge).

The Perm Region courts tried 90792 civil cases, 29955 criminal cases, 63310 administrative cases in 1998.

On the average a judge tries 27.6 civil cases and 9.3 criminal cases, while a judge of the Kizel Town Court has to try 183.7 (!) criminal cases and 19.3 cases originating from administrative legal relations (from I. N. Bobilev's, the Chairman of the Perm City Court, speech at the annual conference of judges).

Among civil cases the most numerous are those related to wage and salary arrears. The Perm Region courts tried 13607 such cases in 1998.

The court of cassation tried 4087 cases concerning 5255 persons who submitted complaints and protests concerning court verdicts that making 16.9 per cent of the total number of those sentenced. 4382 sentences were confirmed, 437 sentences were reversed (8.3 per cent of those appealed), 436 sentences were changed.

The stability of sentences to the number of those appealed made 83.4 per cent in the region at large. The stability of sentences to the number of tried cases made 96.7 per cent.

The major part of sentences submitted for review was reversed due to the incomplete investigation of the facts of these cases. The stability of decisions on civil cases makes 98 per cent of the total number of decisions passed. The Regional Court reversed 970 decisions. However, in 1998 there became noticeable a trend that a small number of judges (36, about 8 per cent of the total number of judges) reversed 501 sentences (51 per cent of the total number of all reversed sentences). For instance, 9 judges of a district court reversed 142 sentences.

As a rule, the rights to appeal and to request the supervisory procedure for review of court judgements are respected in formal terms. Any convicted person has the opportunity to appeal to higher cassation and supervisory instances the practically unlimited number of times especially if s/he believes there were any

violations. Unfortunately, this right remains only formal in an overwhelming number of cases. As a rule, a higher court would correct or reverse a judgement submitting the case for a review if apparent procedure violations were found. Although the total percentage of different “adjustments” made by higher courts in answer to appeals of convicted persons is considerable, these corrections are only minor from the convicts’ viewpoint.

#### Enforcement of Court Judgements

There are 186 bailiffs working in the Perm Region.

In 1998 123 649 enforcement procedures were initiated in the Perm Region, 107191 enforcement procedures were completed (including those initiated over previous years), 22227 enforcement procedures were completed with delays.

The amount due to be enforced in compliance with the writs of execution totaled to Rub. 965554282, Rub. 242135327 were actually exacted. Rounding this amount off it may be said that each creditor received a fourth part of the amount set by the court decision. 1138 complaints were submitted to the bailiff units. In 1998 the Perm Region bailiffs carried out practically no measures enforcing court judgements. The amount of penalties imposed on debtors made Rub. 22841. In fact the amount of penalties collected totaled to Rub. 276 (!).

The mechanism bailiffs employ to enforce court decisions is extremely ineffective. Therefore those not wishing to comply with court decisions are free to disregard them. As a result, creditors have rather to hope for debtors’ honesty than rely on an effective work of bailiffs.

#### Other Violations

In 1998 the qualification board of the Perm Region judges received 75 complaints concerning actions of judges. Three judges were dismissed for actions disgracing the honor and dignity of the judge or disparaging the judicial authority (277 judges were dismissed from office in Russia at large in 1996 through 1998). Besides the Council of Judges of the Perm Region reviewed and satisfied 6 complaints about judges’ actions.

The most often there were made complaints about rude attitude judges and court administration officials showed toward trial participants. In spite of the fact that the basic principles of judges’ conduct are stipulated by the Ethics Code of RF Judges many judges abused participants, what people often interpreted as the judge being an interested party of the case. During the hearings judges often shout at the trial participants, especially those not assisted by lawyers (an over-

whelming majority), interrupt participants with no reason, etc. The Chairman of the Perm Regional Court I. N. Bylev admitted that many judges violate the Ethics Code.

Many citizens submitted to the PRHRC complaints concerning judges Chebykin, Fedotov, Pisareva (Sverdlovsk court), Fakhrutdinova (Leninsk court), Kozlovich (Regional court).

### **Survey of Some Categories of Civil Cases**

#### Cases pertaining to tax legislation

Regional enterprises most often appeal against decisions and penalties imposed by the customs and the tax inspection (for instance, case A-12/k of January 25, 1996, the limited partnership “Valeria” registered by the decision (N 429/3 of 02.09.92) of the Administration of the Industrial District of the City of Perm appealed to an arbitration court against the decision of the Perm customs of 25.10.95 penalizing the partnership in the amount of Rub. 58800 thousand for a violation of customs rules according to Article 274 of the RF Customs Code; the public JSC “Uralsvyazinform” turned to an appellate court seeking the return from the budget of Rub. 28362025 exacted by the State Tax Service of the Motovilikhinsk District (Decision of the appellate instance for verification of legality and well-foundedness of judgements of arbitration courts not entered into legal force, case N A50-7923/96-A2 of 10.04.97).

The Perm regional law “On the Procedure Governing the Settlement of Controversial Taxation Issues on the Territory of the Perm Region” is a useful instrument of protection of taxpayers’ rights approved under the former Head of Administration. The law consists of only three articles. The essence of the law is the following stipulation: “Taxpayers shall be exempted from paying the amount of penalties due to the regional budget in case tax violations resulted from answers given by tax agencies in response to written inquiries or in case tax agencies failed to answer the taxpayer within one month after the inquiry.”

#### Consumer protection cases

Over the first half-year 1435 complaints were lodged with the central and district consumer protection agencies that being by 130 complaints more as compared to the same period of the previous year. Out of this number 550 complaints (almost a third) concerned housing and public utilities issues. As a result of the HPU reform underway in the city tariffs constantly grow, while the quality of

service remains poor: roofs leak, water supply is interrupted for long periods of time, heating systems break. There were registered 531 complaints (by 25 complaints more than in the previous year) concerning the trade. Other spheres of catering seem to be in a better situation. There were registered 87 complaints about consumer services, 21 complaints about mass transit, 36 complaints about financial services, 12 complaints about travel services, 11 complaints about medical care.

Consumers won 90 per cent of cases. Besides, in the course of inspections of various enterprises, agencies and organizations, including those privately owned, initiated by human rights organization there were registered 60 violations, 76 petitions to sue for infringements on consumer rights were submitted to courts.

Some precedent decisions on patient rights protection cases were registered in the region. There is a specialized human rights group focusing on such cases.

Thus, the Kirov District Court of the City of Perm rendered a decision on the civil case concerning the causing of grave harm to the health of A. V. (a minor). The Perm Medical Center for Human Rights participated in the preparation of the petition to sue and represented the minor's interests (tel. 657-286, 901-304, Ye. V. Kozminykh, Director).

According to the findings of the forensic examination carried out by a Moscow-based commission, the doctors failed to take into account the contraindications of vaccination and to undertake urgent medical treatment, which is necessary in such cases.

At present the minor is still in the state of paralysis complicated by bedsores and a pathological fracture.

The court rendered the guilty medical institution to pay Rub. 30 thousand to compensate moral damage and Rub. 11 thousand in compensation of disability (Andrei is 16 now). Besides, the hospital shall make monthly payments of Rub. 400.

### **Guarantees of Individual Rights and Liberties**

A relatively favorable human rights environment is a positive factor facilitating business. In contradistinction to some regions within the "red belt", Moscow and St. Petersburg no pressure has been put on "hostile" commercial and political structures. The Perm Region is one of few regions where local human rights organizations are strong ("Memorial").

The structures of the regional human rights center created on the basis of "Memorial" (some of its activities and information provided by the center are

referred to in the above section) are active in the majority of districts of the region. Qualified experts of the center consult 100 to 200 citizens a month.

Local mass media (including the administration's official web-site) regularly informs the populace about the center's activities.

Although regional courts are in the same situation as other courts in the RF (same problems: lack of funds, small salaries of judges and officials) they work in a quite different environment.

For instance, last year the local press widely covered a case won by a citizen (he sued the judicial department for illegal imprisonment resulted from an ill-founded sentence (it was reversed). Although this amount is comparable to the total monthly salary of all city judges, the defendant did not try to appeal against this judgement, but publicly supported it (in an article signed by a representative of the department).

The local mass-media are also in a relatively favorable situation. The last election demonstrated that the majority of local publications were pragmatic and flexible, notwithstanding their political adherence.

This may be illustrated by the case of S. V. Levitan (publisher of *Gubernskiy Vesti* newspaper, small-scale regional entrepreneur). Mr. Levitan with some success competed with recent incumbent Igumnov during the elections of 1996.

*Gubernskiy Vesti* often severely criticized the administration. In 1999 Levitan competed with V. V. Pokhmelkin (Igumnov's ally) for the seat in the State Duma as the nominee from Boldyrev's bloc. It was an expensive campaign. According to Levitan, he also sponsored the bloc. In the course of the campaign an "attempt" was made on Levitan's life. According to local observers the incident was crudely staged (the bomb was made of two cartridges, after the blast there were no victims and even the cardboard box containing the bomb was hardly damaged). However, even this ample opportunity to sentence and discredit the opponent by exerting pressure on the investigation and the court was not used.

At the same time even regions with relatively liberal regimes witnessed indications of the executive authorities directly pressuring election commissions, law enforcement agencies, courts, and commercial structures in order to stop "hostile" candidates, and/or deprive them of financing.

A considerable number of infringements on the rights for legal protection found out by local human rights organizations as a rule were not of grave consequences for citizens. This fact rather illustrates the efficiency of the regional law enforcement system due to a tough independent control than really serious problems.



## Information on the Tumen Region

### 1. Economic conflicts, infringement on ownership rights.

A relatively favorable situation (in Russian terms) was registered. At the same time, some negative practices were noted.

After the governor elections of 1996 the enforcement and fiscal regional structures demonstrated an increased interest in the operations of companies controlled by S. Atroshenko, the major rival of the governor during the elections. "Tumen Kredit" bank was pressured: the authorities forced its clients to sever their relations with the bank. For some time the bank survived because of accounts held by the Management Department of the Presidential Administration; however, in 1999 it went bankrupt. As a result S. Atroshenko had to sell his business and leave the region.

In 1999 the Tumen city bank (*Russ. abbr.* TGB, a privately owned commercial structure) headed by G. A. Roketskaya, the wife of the governor, experienced financial problems. In order to improve the bank's standing municipal structures, state and private enterprises were forced to operate with cash via this bank. According to local mass media those refusing to comply were directly threatened.

A largest regional bank (Zapsibkombank, V. Yakushev is the Chairman of the Board of Directors, major bank owners are Gazprom structures, a large creditor of the regional budget, a rival of TGB) was assaulted by a number of persons employed as guards by the extra-departmental security service at the city municipal Department of Internal Affairs (*Russ. abbr.* GUVd) headed by A. Repetov (an assistant of the governor) and S. Klassin (a Regional Duma deputy, the former head of the Regional Agency for Fighting Organized Crime, *Russ. abbr.* RUBOP) on April 11, 1999. The bank's operations were paralyzed for several days, some documents disappeared; however, in the end the attackers had to leave the premises. The bank's management believes that the assault was a result of the shareholders refusing to appoint TGB managers as board directors. In the consequence of this incident the bank cancelled its registration in the region and was re-registered<sup>16</sup> in the Town of Salekhard of the Yamal-Nenets Autonomous District; thus the region lost a large taxpayer. In January of 2000 the regional administration undertook an action of dubious legal nature against closed JSC "Tura

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<sup>16</sup> According to the Russian legislation a legal entity pays taxes at the locality where it was registered, which is not necessarily its actual location. Head offices or sales departments are often registered at fictitious addresses in regions with minimal rates of local taxes, for instance, in Ingushetia, Republics of Altai, Tyva, Evenkia, etc.

Petroleum” (D. Chernik, director) established by Canadian investors. “Tura Petroleum” was licensed to develop the Kalchinsk oil field, one of few fields situated not in autonomous districts, but in the region proper. Notwithstanding the fact that over \$ 44 million had been already invested in the field, this investment was declared insufficient and the license was transferred to “Tumenneftegaz,” a subsidiary of the Tumen oil company (*Russ. abbr.* TNK, a part of the “Alpha-Group) closely connected with the regional administration. According to the Russian legislation the issues concerning licenses for the development of raw materials deposits are subject to the joint control of regional and federal authorities; however, the RF Ministry of Natural Resources (responsible for licensing on the federal level) did not approve the change of license holder. However, it shall be noted that the regional administration correctly acted during a best-known privatization conflict of 1990s (the privatization of “Nizhnevartovskneftegaz” and “Samotlorneftegaz”).

These oil-extracting enterprises, which are among the wealthiest and best suited for further development enterprises in the country, had been included in the Tumen oil company (later purchased by the consortium of “Alpha-Group” and “Renova” at a loan-for-shares auction taking place in 1995 - 1996). However, executive managers of these enterprises (V. Paliy, M. Nekrich, A. Dokhlov) supported by some officials of the RF government and the administration of the Khanty Mansi Autonomous District and local law enforcement agencies at first denied the representatives of shareholders the access to enterprises and later attempted to sell enterprises’ assets to some offshore companies (probably owned by themselves) for next to nothing. Paradoxically, the managers appointed to the enterprises by the government refused to cede control to the owners after privatization and remained at enterprises even in spite of the fact that they had no right to do so. It shall be noted that “Nizhnevartovskneftegaz” accumulated huge arrears of payments to various budgets, including the Tumen regional budget in 1993 through 1995. These actions of “Nizhnevartovskneftegaz” managers were widely seen as an example of bold defiance toward all Russian laws<sup>17</sup>. L. Roketski, governor of the region, actively supported the dismissal of V. Paliy and his associates effected in mid-1997. Since the former managers retained considerable influence in the Khanty Mansi Autonomous District, where TNK extract-

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<sup>17</sup> For instance, the local airport refused the landing of planes with governmental officials arriving for the “Nizhnevartovskneftegaz” shareholders’ meeting; at another meeting a governmental official had to vote contrary to his instructions under threat of a bodily assault, etc.

ing enterprises are situated, the head office of TNK was registered in the City of Tumen, where the enterprise was accorded most favorable treatment (although, proceeding from the aforementioned facts, sometimes in excess of the limits of the authority), while the city and the region obtained a stable large taxpayer.

## *2. Economic Policy Pursued by Regional Authorities.*

**2.1. Housing and public utilities reform.** According to the appraisals made by our interlocutors the regional authorities are not interested to demonopolize this sphere. Among enterprises most opposed to the reform there were named municipal unitary enterprise (*Russ. abbr.* MUP) “Gorteploset” (Rybin, director, City of Tumen). The enterprise underwent a very original reform. Illogically, the municipal administration has no control over the tariffs on “Gorteploset” services, although it is owned by the city. Water counters have been installed only at the system’s exit points, while the installation of water counters (which could demonstrate the quantity of water actually reaching the consumers) at enterprises and in residential buildings is hindered. According to “Gorteploset,” about 25 per cent of heated water are wasted. The quality of water remains poor. At the same time, managers of public utilities rejected a proposal made by a group of private investors to build a privately owned collector, which could increase water supply to a number of city blocks, at the investors’ expense.

**2.2. Restrictions on the movement of goods, services, capital, and labor.** No restrictions. The only attempt to introduce barriers to agricultural produce exports to other regions was made in the hectic post-crisis atmosphere (only for those in arrears of payments to the regional budget, decision of the governor No. 159 of 09.09.1998); this measure was abolished in six weeks.

## *3. Price control<sup>18</sup>*

At present an entrepreneur may be arbitrarily accused of “holding prices up” because of the gaps in the federal legislation (for instance, articles 146.6 and 151 of the Administrative Code (*Russ. abbr.* KOAP). Article 224.8 of KOAP directly stipulate that this prerogative shall be with some anonymous “state price-controlling agencies” at the regional level, i.e. each region is free to establish such agencies at its discretion. Although these articles of the KOAP contradict to a number of other laws, regional authorities actively use them to regulate market prices, sometimes in a rather tough manner. The Tumen

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<sup>18</sup> The issues of control of tariffs on the services rendered by municipal enterprises and natural monopolies (in these cases the price control is stipulated by the RF legislation) are left outside the framework of this section. The section aims to discuss attempts to control prices of other goods and services.

Region has not employed any price control mechanisms (direct price setting, limited extra charges, profitability levels, etc.). The region adopted a rather ambiguous law (“On Price Policy,” No. 9 of 22.08.1995), which indirectly sets price controls; for instance, the law defines the term “infringement on the state price discipline” as “an excess over maximal and fixed prices, maximal profitability rates, maximal amounts of trade surcharges, infringements on the procedure of price declaring.” However, the law contains no concrete provisions setting the abovementioned maximal prices, surcharges, etc. The only limitation set by the law is the stipulation that increases in prices shall be declared 10 days prior to the implementation; however, this stipulation in practice is not complied with.

#### **4. Mass media.**

There are many newspapers, TV and radio channels in the region, including those in opposition to the authorities (for instance, newspapers *Tumen Pravda*, *Sibirski Posad*, state TV and radio company (*Russ. abbr.* GTRK) “Tumen”, etc.). It may be noted that the informational transparency of the actions of the authorities is ensured.

Although no mass grave violations of economic rights and liberties have been registered, it does not exclude arbitrariness toward those opposing the authorities, the most illustrative case being Roketski – Atroshenko conflict as compared with the conflict between Igumnov and Levitan in the Perm Region.

#### **Regional Perm – Tumen report’s conclusions:**

An analysis of the regional legislation has revealed that the Perm Region has no especially apparent and substantial advantages as compared to the majority of other regions, excluding the budgetary legislation. An analysis of law enforcement has demonstrated substantial advantages in the following key spheres:

- Personal security, including the right for legal protection;
- Free press and the informational transparency of authorities;
- Guarantees of ownership rights.

These advantages have been ensured both because of the attitude of the executive authorities, and, first of all, the existence of developed structures of the civil society, including human rights organizations.

The law enforcement practices in the Tumen Region are at a relatively high level as compared to the all-Russian average. At the same time, in some instances there were noted insufficient guarantees of ownership rights and personal security that being explained, at the given level of the political unanimity of the regional authorities, by the “third sector” and independent public political organizations being less developed than in the Perm Region.

## Supplement 6. Report on Saratov Region

### 1. Political Situation. Regional Business Elite.

**D. F. Ayatskov**, Governor, Chairman of the Government of the Saratov Region, is a former agriculturist (he is already the third Saratov Region Governor, who used to work at a poultry plant). In 1991 he became the vice-mayor of the town of Saratov and came into a serious conflict with mayor Yu. Kitov, who kept to Left convictions. Kitov shot himself to death in the result of investigations initiated by Ayatskov. In 1993 Ayatskov was elected to the Federation Council due to his good relations with V. F. Shumeyko. In 1996 Ayatskov was appointed as the Governor of the region thus turning Yu. Belykh, former Governor, into his bitterest enemy. In 1996 he was elected as the Governor (80 per cent of votes), his campaign was actively supported by A. B. Chubais, whom he greatly respects. Ayatskov managed to subdue all political organization (except CPRF). He maintains best relations with “Yedinstvo (Unity)”, (L. Sliska, at present vice-speaker of the State Duma from the Unity, used to be Ayatskov’s representative at the regional Duma); however, the local “Otechestvo (Fatherland)” organization is headed by N. Semenets (deputy of the regional Duma), loyal to Ayatskov. His economic policy permitted land turnover; however, at the same time it was aimed to monopolize all sectors of the market. Many independent entrepreneurs are squeezed out of the region. In the region there are in effect some unlawful limitations on export of agricultural produce, while firm ADM (supported by the Governor) buys up grain offered by peasants for export outside the region. Ayatskov is a supporter of large subventions to the AIC (Agri-Industrial Complex) mainly to purchase agricultural machinery and equipment. He strives to conclude agreements with enterprises aimed to make them sell their products to state funds. Ayatskov is an unbalanced person, he used to suffer of alcohol abuse. He is a great master to show off, nicknamed “Dmitry Bordyurovich (Curbstone), since he always orders to paint curbstones prior to VIP visits. He is always ready to forgive his political and personal enemies as a great supporter of “consensus and reconciliation.” His other favorite ideological slogan is the “dictatorship of the law.” Ayatskov is an admirer of Stolypin and believes that private initiative is consistent with state control. He respects such modern politicians as B. Yeltsin, A. Chubais, Ye. Gaidar, Ye. Primakov. For a long time Ayatskov was involved in a conflict with V. Chernomyrdin, however, later they become so close allies that Ayatskov agreed (in December of 1998) to head the Volga association of region-

al NDR (Our Home is Russia) organizations. He took a negative attitude to Kiriyenko and his government. Ayatskov advocates consolidation of all non-Communist political organizations from Yabloko (Apple) to LDPR to "Otechestvo" to SPS (Union of the Right-Wing Forces). He controls the regional Duma.

In year 2000, Ayatskov won the Governor elections, however, there are serious doubts that the elections were free. For instance, V. Rashkin (a State Duma deputy from KPRF) was not allowed to run under some flimsy pretext. Ayatskov received 67 per cent of votes, 20 per cent of constituents voted against all candidates at the call of the Communists.

In spite of all his efforts, Ayatskov has failed to establish good relations with the administration of President Putin.

The attitude taken by Ayatskov toward the civil society is demonstrated by the following quotation: "In case due to some reason a law can not be enforced within the territory of the region, it shall be suspended or abolished." (From the address of Governor Ayatskov to the residents of the Saratov Region).

**P. P. Kamshilov** is a Deputy Chairman of the Government of the Saratov Region, earlier he was the Presidential representative in the region, before 1996 held the office of the Chairman of the Saratov Property Fund, in 1998 through 2000 he was the Chairman of the Regional Government. He is absolutely loyal to Ayatskov. Many experts think that Ayatskov turned over the office of the Chairman of the Regional government to Kamshilov (earlier held by Ayatskov himself) in order to later ascribe to him all failures. Kamshilov finds that it is unfeasible to develop chemistry and petro-chemistry, and it would be feasible to lay special emphasis on the agri-industrial complex (AIC) subsidizing not producers, but prices of produce. Kamshilov is doing much to complete gasification of the Region.

**Yu. N. Aksenenko** is the mayor of Saratov. Previously he held a post in the mayor office under Ayatskov. Since 1999 Aksenenko has striven to play an independent role, and it is possible that he will take part in the next elections. He strongly differs with the Governor due to the "Saratov – Region" redistribution conflict. Since year 2000 Yu. Aksenenko has become an open opponent of the Governor.

**V. Volodin** is the former vice-governor responsible for the majority of financial projects. At present he is a State Duma deputy from "Otechestvo," holds the post of the fraction leader deputy. In the beginning of 1999 Volodin took up a job at the "Otechestvo" election office upon the recommendation of Ayatskov. Many observers tend to view this as a honorary dismissal after Ayatskov began to

fear Volodin, to whom business and administrative elite took a very positive attitude.

**S. G. Shuvalov** is the first vice-governor of the Region, the minister for economy. In 1991 through 1993 he held the office of the deputy chairman of the State Property Committee (SPC), later was engaged in private business. He is an authority in economics, an efficient and experienced professional in this field. Shuvalov could win Ayatskov's respect, although was initially outside his "inner circle."

**R. Khalikov** is a federal inspector for the Saratov Region. Previously held office of the regional trade minister. Khalikov is considered to be a most important shadow businessperson and a closest ally of the Governor.

**Ye. Shlychkov** is the Chairman of the Board of Directors and a co-owner of "Transmash" plant (town of Engels). Shlychkov could resurrect the enterprise (three years ago wage arrears made nine months, now there are practically no arrears). He advocates the shift of the tax burden from producers to trade.

**V. N. Yuzhakov** is the Rector of the Volga Personnel Academy, a State Duma deputy, the leader of the regional SPS organization.

**E. S. Rogozhin** is the Chairman of the regional organization of the Federation of Independent Trade Unions of Russia (FITUR), he shares Left-wing views. Rogozhin fears but does not respect Ayatskov. He is a leader of "Otechestvo."

**K. K. Ionov** is the vice-mayor of Saratov and the leader of the local NDR organization. He stands well with Ayatskov.

**Kamil Ablyazov** owns "Narat" band and some property complexes in Saratov. His relations with the Governor are complicated by the fact that the latter strives to take control over his businesses.

**G. Heifman** is a co-owner of "Express – Volga" bank (a largest in the region), owns a chain of stores. The Volga Railroad owns a share in the bank. Heifman is allegedly connected with criminal structures. He is a close friend of R. Khalikov (the Federal Inspector in the region), class-mate of A. Rossoshanski.

**M. Eldarov** is the president of the largest private pension fund "Russki Kapital (Russian Capital)."

**A. Yermishin** is the general manager of "Saratovski Aviatsionnyi Zavod (Saratov Airplane Factory)." The enterprise supported by the Governor is actively adapting to the new business environment (it mostly shifted to harvesters in stead of airplanes).

**A. Tregub** is the head of the regional FSB (Federal Security Service) office. He is ill-disposed toward the Governor.

**Yu. D. Ageev** is the regional minister of agriculture, actively supports bans and restrictions on export of agricultural produce.

**V. Maron** is the first Vice-Governor, former attending doctor of Ayatskov.

**N. Makarov**, former regional public prosecutor, at present holds the post of Deputy Public Prosecutor for the Privolzhski Federal Okrug, he is one of few persons independent of Ayatskov. Makarov shares Left-wing views and actively cooperates with the State Duma “commission for investigation of privatization results.” He boasts to be the “only” honest public prosecutor fighting against the results of privatization.

**Yu. Zelinski** is the head of the Central Bank Chief Regional Office, formerly worked at the SBS – AGRO bank.

**R. Pipiya** is the director of “Liksar” wines and spirits factory. The state share in the factory was transferred to Pipiya and a number of front persons allegedly acting on behalf of the Governor.

**N. Telyatnikov** is the head of the State Tax Inspection office, for a long time was an opponent of the Governor, Ayatskov insisted on his dismissal. Telyatnikov is a “contract raider.” He knows which way the wind is blowing and will support any who holds real power.

**A. Rossoshanski**, formerly the head of the committee on public relations, is a most trusted adviser of the Governor.

**K. Yatskov** is the head of the regional office of the Federal Tax Police, previously he held the post of the deputy head of Privolzhski regional office of the police for organized crime and was one of the Governor’s “family,” however, in year 2000 he came into a serious conflict with the Governor and one of his favorites (A. Miroshin, secretary of the regional Security Council) accusing them of connections with the Mafia, for instance, with criminal boss V. “Zema” Zemtsov.

**P. Salnikov** is the head of the regional office of the Interior Ministry. According to some rumors he is a relative of Stepashin, since he was unexpectedly promoted when Stepashin worked at the Interior Ministry. Salnikov does not enjoy authority, previously he served in the security guards.

**A. Miroshin** is the Secretary of the regional Security Council. He became famous due to his attempts to restore the total system of “informing” appealing to report to the authorities about breaches observed in trade, personal life of officials and businesspersons. Miroshin is an important figure of shadow business.

**A. P. Kharitonov** is the Chairman of the Legislative Assembly. This official is totally loyal to the Governor, he has been cooperating with Ayatskov for a very long time. Kharitonov is a leader of the regional organization of the Agrarian



Party, however, he changes his stand depending on changes in the stand of the Governor.

**V. N. Santalov** is the general manager of JSC “Saratovptitsa (Saratov Poultry).”

**D. V. Udalov** is a veteran of the Afghan war and one of the major regional entrepreneurs. He headed financial company “Russkoye Pole” (at present the company is broken into several firms, however, Udalov manages all of them), owns a chain of stores in Saratov. Udalov is a major grain trader. His brother A. Udalov heads the Saratov Stock Exchange.

**V. D. Shaposhnikov** is the general manager of JSC “Saratovdizelmash,” at present the enterprise is faced with difficulties.

**A. M. Chistyakov** is the general manager of JSC “Saratov Bearing Plant,” at present the enterprise is faced with difficulties.

**A. K. Musenov** is the Chairman of the Board of Directors of the largest regional textile manufacturer “BALTEK” situated in the town of Balakovo. Musenkov and A. Vetrov co-own the enterprise, which is one of the most dynamic firms in the regions and is run by good managers.

**A. P. Bogdanov** is the Chairman of the board of Directors of the Saratov-based plant manufacturing fuel filters. He is a good manager, who was able to improve the enterprise’s operation.

**V. Ye. Rodionov** is the President of “Avtodor” basketball club, owns several campings, clubs, and stores. According to information for year 1998 he co-owned “Nafta” oil company. In 1993 Rodionov funded the election campaign of Ayatskov. In spite of some past difficulties he was able to “rise” again. Rodionov abandoned politics (he struggled for the office of Saratov mayor, but Ayatskov stopped his campaign by rather dubious methods). He may become a strong contender for any office, including the post of the Governor.

**V. A. Shmidt** owns the “Povolzhski Nemetski Bank (German Bank)” (a dynamic enterprise with good prospects is actively engaged in investment in the real sector).

**A. Liberman** is the general manager of “Saratovsteklo (Saratov Glass).” The enterprise is an affiliate of the “Alpha Group.”

Developed mechanical engineering, light, and food industries characterize the economy of the Saratov Region. Although the agri-industrial complex is also developed, it permanently suffers of draughts and other natural calamities. The town of Saratov is a major scientific and educational center. At present AIC and chemistry could adapt to the market environment, while mechanical engineering and light industries succeeded less. Largest regional banks are “Volga,” “Pov-

olzhski Nemetski Bank,” “Transkredit,” “Sinergio,” “Konto,” “Inkombank,” “SBS – AGRO,” and “Alpha” had been active in the region before the crisis.

The larger part of the oil industry in the region is owned by “Sidanko” group (for instance, Saratov Oil Refinery and retail sales network. The interests of “LUKoil” in the region are represented less.

According to many experts, “Alpha Bank” (the Region can not repay a large credit granted by the bank) and “Sidanko” (due to personal conflict between the Governor and the company management) actively oppose Ayatskov employing their Moscow connections. Due to this fact there are so many federal officials in the regions who oppose the Governor.

## **2. Economic Conflicts, Infringements upon Ownership Rights.**

Economic conflicts taking place in the region may be divided into two groups: 1. Intra-regional conflicts as a rule related to the control over the redistribution of tax revenues derived within each municipal entity; 2. Conflicts related to industrial enterprises interesting for foreign investors or major Russian businesspersons. It shall be also noted that infringements upon ownership rights most often take place in the process of transfer of property from state ownership to other forms (private, municipal), which is almost complete in the region. Therefore, over preceding 2 to 3 years the number of conflicts and registered infringements upon property rights diminished in comparison with early and mid-1990s, when most of these conflicts were initiated by criminal structures.

1. An illustrative example of a conflict from the first group is the worsening relations between the Governor and mayors of large “donor” cities of the region – Saratov, Balakovo, and Engels. Three groups in the Governor’s team are engaged in election campaigns in these cities aiming to prevent reelection of Balakovo mayor Saurin, Engels mayor Svistunov, and Saratov mayor Aksenenko. In end-1999 the conflict between the Governor of the Saratov Region and the mayor of the city of Saratov became public: at a meeting taking place in December the Saratov mayor suddenly began to rather aggressively argue with the Governor defending his positions instead of silently accept the accusations the Governor made against him. Until recently, Yu. Aksenenko has been regarded as a member of the Governor’s team. However, over two preceding years the relations between the mayor and the Governor and the government have considerably tensed. This conflict broke out first of all due to budgetary claims the city put forward against the regional authorities. The city of Saratov is the most important source of revenues of the regional budget and from the mayor’s point of view regional budgetary financial resources were redistributed with detriment to the city. In

order to settle such conflicts the Governor usually resorts either to informal agreements, or puts pressure on district administrations (initiates the dismissal of the head of a district administration).

The Saratov Region is a part of the Privolzhski Federal Okrug. In September of year 2000, R. Khalikov was appointed as the Chief Federal Inspector of the Saratov Region. Ayatskov appointed him as a deputy trade minister of the region in 1996, as soon as he himself became the Governor. In 1997, Khalikov became the trade minister, later he was transferred to take the post of a deputy Chairman of the government of the Saratov Region. In fact, Khalikov is a member of the Governor's closest informal circle. He has always held offices permitting to control financial flows in the region. It was not a coincidence, since according to "Bogatei (Wealthy Person)" newspaper he is the informal "cashier" of Ayatskov. Khalikov's deputy as the regional trade minister was Aleksandr Miroshin, at present he holds the offices of the Vice-Governor and the Secretary of the regional Security Council. This agency is involved in court suits against the regional Prosecutor's office (it disputes the right of Miroshin to control the activities of regional representations of federal "force structures," access confidential and secret information, etc.) and the Tax Police office for the Saratov Region and its head Mr. Yatskov (Yatskov alleges firms controlled by Miroshin of breaches of the law and ignoring of the regulations set by law enforcement agencies, while Miroshin was accused of connections with criminal structures and disclosure of secret information). At present, due to the new appointment of Khalikov Miroshin's position considerably strengthened. Khalikov participates in activities of the local Tatar community (which is prominent in the political and economic areas, has close relations with Moscow and Kazan Tatar communities). Connections with the Kazan community are of special importance, since the cassation instance of the Arbitration Court is situated in this city. As a member of the regional government Khalikov lobbied for the economic interests of community members, including those opposing the Governor.

Sometimes, the present authorities do not stop even in anticipation of easily predicted public reaction to the economic measures it implements. For instance, in December of 1999 the Saratov Regional Duma approved law No. 58-ZSO of November 29, 1999, "On the Introduction of the Single Tax on Imputed Income within the Territory of the Region..." what sparked off strong public protests. Private entrepreneurs (not constituting legal persons) organized a meeting against the apparently excessive tax rate. They rightly saw that the approved version of the law would doom them to ruin and unemployment. However, this action was to no avail.

2. In 1997 through 1998 there took place a well publicized change of owners of a largest regional chemical enterprise JSC “Khimvolokno (Chemical Fiber).” At the beginning of the conflict the management (under general director A. Bogdanov) owned a 30 per cent share in the enterprise. Financial and Industrial Group “INTERROS” (V. Potanin, M. Prokhorov), which was interested in this plant, initiated the sale of some shares via front persons acting on “INTERROS” behalf. “ONEKSIMbank” used this opportunity to purchase the controlling interests in the enterprise. Since “ONEKSIMbank” is controlled by “INTERROS,” the financial and industrial group became the actual owner of “Khimvolokno” and used this opportunity to pursue a policy aimed to weaken the plant, what resulted in its bankruptcy. Obviously, the regional authorities opposed these developments and started an active campaign against “INTERROS,” which forced the group to sell “Khimvolokno” to a large Turkish chemical company. Therefore, it may be noted that in order to protect his interests Ayatskov is able to obtain support not only of the regional industrial elite, but also of substantial political and economic forces at the federal level.

At the same time, the region implements even tougher measures to keep grain of the new harvest in quantities sufficient to provide for its own needs within its territory. The decision of the regional Government allows the producers to export grain outside the region only after all supplies to the regional food fund and so called “Governor’s” fund are completed and the debts for fuel, lubricants, etc. purchased on credit are settled. At the same time, only a very limited number of organizations are granted a special authorization of the regional Government to purchase grain within the region. Therefore these organizations offer prices several times below those set by outside buyers. It is not surprising that in this situation many grain producers violate the Decision and illegally export grain, sometimes by whole trains. The Governor and the Government answer with even tougher measures, including those aimed against heads of municipal entities where most numerous violations were registered. It is difficult to apprise the effectiveness of these measures. Meanwhile, many sources inform that allegedly there is introduced a semi-official prohibition on all grain exports from the region.

### **3. Economic Policy of Regional Authorities.**

3.1. **Reform of Housing and Public Utilities.** The regional authorities have never regarded the reform of housing and public utilities as their priority. Construction enterprises were privatized most actively, what resulted in the establishment of two large companies (“Saratov Stroi” and “Uragan 96”) and a num-

ber of smaller JSCs. Due to this fact the regional housing market (mostly in Saratov) has been expanding since mid-1990s. At the same time the public utilities are falling into decay. Enterprises “Teploset (Heating Network)” and “Vodokanal (Water Channel)” were not privatized, at present they are municipal unitary enterprises. These enterprises operate at a loss, mostly due to low tariffs. In November of year 2000, the Saratov mayor attempted to rise city tariffs, however, the regional Government delayed the final decision on the issue. A trend toward establishment of small private firms (an alternative to state-owned enterprises) in the area of public utilities has become perceptible since recently. However, the region still lacks the respective legislative basis and an integrated strategic program of reforms in the sphere of housing and public utilities.

**3.2. Regional Energy Facilities.** JSC “Saratovenergo (Saratov Energy),” a subsidiary of the “UES of Russia” has its district units in the region. JSC “Saratovelektrosvyaz (Saratov Electrical Communications)” meets the regional needs and supplies electricity to FOREM (federal wholesale market of energy and power). A nuclear power station (NPS) with four reactors is situated in the town of Balakovo. It is planned to build two additional reactors over the few next years. These power stations produce one fourth of the total electricity generated in the Povolzhski region or three per cent of the energy generated in Russia. Other major power sources in the region are thermal power plants belonging to JSC “Saratovenergo”: SarGRES, TETs 1, TETs 2, TETs 5 (city of Saratov), TETs 3 (town of Engels), TETs 4 (town of Balakovo). The major fuel for power stations is natural gas, the reserve fuel is fuel oil. The region enjoys a privileged tariff on electricity purchased on the federal wholesale market of energy and power. Tariffs on electricity are at the average all-Russian level. In November of year 2000 Saratov mayor Yu. Aksenenko attempted to rise tariffs by 2.5 times, however, he failed due to the resistance on the part of regional administration. Major defaulting debtors of JSC “Saratovenergo” are state-owned industrial enterprises, however, there are few electricity cut-offs. “Yugtransgas” and “Zapsibgasprom” are subsidiaries of Gazprom operating within the territory of the region. The major part of their payments is transferred via the regional office of “GAZPROM-BANK.” The region produces 1.8 per cent of oil and 17 per cent of natural gas extracted in the Povolzhski region. The largest deposits are Uritskoye, Rozovskoye, Zapadno-Rovenskoje, Splavnukhinskoye, and Sokolovogorskoye. Further surveying is most prospective in Saratov Zavolzhye (to the East of Volga). At present about 80 per cent of regional deposits remain unsurveyed. The region completed the gasification program.

3.3. **Transport.** Saratov is a key transportation junction, which connects central regions with Urals, Siberia, Middle Asia. The regional transport complex includes:

- Saratov office of the Privolzhskaya Railroad;
- Rtishchevo office of the South East Railroad;
- general purpose motor transport state-owned unitary enterprises ("Saratovtransavto");
- non-state motor transport enterprises (including private ones);
- JSC "Saratovskoye Rechnoye Transportnoye Predpriyatiye (Saratov River Transport Enterprise)";
- JSC "Passazhirskeye Rechnoye Upravlenie (Passenger River Office)";
- JSC "Saratov Airlines";
- municipal enterprises of electric transport.

Railroads play the leading role in the regional transport infrastructure (over 90 per cent of freight and about 40 per cent of passenger turnover). City of Saratov is a large Volga port. The waterway connects the city with the industrial center of Russia, Moscow (via the Moscow Channel), West Urals (via the river of Kama), Black Sea (via Volga Don Channel), the Baltic states and White Sea (Volgo-Balt waterway system). The cargo mechanized port is situated in the Southern part of the city. There are all types of public conveyance in Saratov, except the underground: bus, trolley bus, tram, and taxi services. The fleet of trams and trolley buses is about 665 vehicles (about 15 per cent of the total passenger turnover in the region). The fleet of buses makes about 7.5 thousand of vehicles (45 per cent of the total passenger turnover). However, even in spite of so numerous municipal vehicles private buses and vans also service a large number of city commuters.

The private transport sector is especially useful in rush hours, holidays, and to reach suburbs. Until mid-2000 fares in the private sector were by 2 to 2.5 times higher than in the municipal one. Although in the autumn of year 2000 the municipal conveyance fares increased from Rub. 1.5 to Rub. 2.5, it had no significant impact on prices in the private sector. Therefore the real ratio between fares in the municipal and private sectors declined and in January of year 2001 the private fares exceeded the municipal ones by only 50 to 60 per cent.

On the whole, the transport complex generates the second largest part of the major regional budgetary revenues. The pipeline freight turnover makes over 80 per cent of the total regional freight turnover; although it practically does not depend on the economic results of the real sector, over the last two years it has been the major factor behind the recovery experienced by the industry. It is an

evidence that the operations of transport sector depend on the economic activity of consignors and their financial standing. In 1990 through 2000 the structure of commercial freight traffic carried out by general purpose transport has changed considerably. The share of railroad transport substantially increased, while the shares of motor and water transport declined. A considerable decrease in the passenger turnover may be explained by falling incomes of potential customers, due to which the intensity of passenger traffic substantially decreased, especially in the time of mass vacations. The strategic situation of the Saratov region substantially changed due to the opening of a new bridge across Volga in January of year 2001. A considerable increase in the regional infrastructure potential opens wide vistas for the development of the regional transportation complex, as well as the development of the CIS common market.

**3.4. Air Conveyance.** The city of Saratov hosts an international airport. “Saratov Airlines” is a regional monopoly engaged both in passenger and freight conveyance. However, “Aeroflot” also operates in the region. Saratov services direct and transit air lines connecting the city with Moscow, Volgograd, St. Petersburg, Samara, resorts of Caucasus and Crimea. There are also local air lines. Although the airport obtained the international status (less than two years ago) the service is far from European standards. International lines connect Saratov with Germany (Hanover) and Turkey.

**3.5. Major Industrial Enterprises.** There are 184 industrial enterprises of different ownership forms in the region including: 48 state-owned enterprises, 7 joint ventures, 19 enterprises of mixed ownership, and 110 private ones. The structure of the industrial production is as follows: electric power industry – 24 per cent, chemistry – 21 per cent, mechanical engineering – 19 per cent, food industry – 13 per cent, fuel – 6 per cent, construction materials industry – 6 per cent, other – 11 per cent. The key industries are chemistry, mechanical engineering, and metal working. The largest enterprises include: JSC “Saratov Metizny Zavod (Hardware Plant),” JSC “Vtorchermet” (ferrous metal scrap recycling), a subsidiary of “Inter-Regional Company for Natural Gas Sales” Ltd., JSC “Saratovnefteprodukt (Oil Products),” JSC “Khimvolokno,” JSC “Blavisko,” the Saratov Bearing Plant, JSC “Zavod Avtotraktornykh Zapalnykh Svechei (Auto and Tractor Spark Plugs Plant), closed JSC “Saratov Airplane Factory,” JSC “Saratovski Zavod Tyazholykh Zuboreznykh Stankov (Saratov Industrial Gear Cutting Machinery Plant),” state-owned unitary enterprise “Saratovtransavto,” closed JSC “Karat Plus,” JSC “Saratovsteklo,” JSC “Baltex” (Balashevo Textiles), JV “BAT – Tobacco Factory,” JSC “Molochny Kombinat Saratovski (Saratov Milk Integrated Plant), JSC “Engelsski Trolleybusny Zavod (Engels Trolley Bus

Plant).” The major part of industrial enterprises is situated in the city of Saratov, at the same time Balakovo, Balashov, and Engels are also industrial district centers.

**3.6. Communications.** The number of communications companies increased by one third as compared with 1990 figures. Over year 2000 Rub. 1.1 billion worth of communications services was rendered in the region. Services of telephone stations made 65 per cent, mail and telegraph services accounted for 23 per cent of the total amount of services rendered in the region. The total number of telephone lines installed in the region increased by 15 per cent over year 2000. On the whole, the major regional operator “Saratovelektrosvyaz” maintains 356 thousand telephone lines. Companies “Saratovskaya Sistema Mobilnoi Svazi (Saratov Mobile Communications System),” “Saratov Mobile,” and “Mobilnye Sistemy Svyazi – Saratov (Mobile Communications Systems – Saratov)” provide cellular communication services (totaling to over six thousand subscribers). There are 785 thousand post and telephone offices provide inter-town telephone services. Quasi-electronic inter-town station “Quartz” (4 thousand inter-town channels) and combined AT/AMT “Alcatel” station (7 thousand communication channels) daily provide over 40 thousand inter-town calls for the city of Saratov and over 90 thousand calls for the region at large. Cellular and telecommunications regional systems develop. There are three operators of mobile telephone networks and 14 Internet providers in the region.

#### **4. Banking and Insurance Systems**

The wide-spread mistrust of the Russian banking system obviously negatively affected the development of the regional banking system in the early and mid-1990s. However, as later regional banks overcame the financial crisis of 1998 more successfully than large all-Russian banks opportunely getting rid of GKO, the regional banking system won not only private depositors, but also large local businesses. In end-1998, the importance of such banks as “Express Volga,” “Synergia,” and “Econom-bank” rose considerably. At the same time “Povolzhski Nemetski Bank” was recognized as the most stable bank in the region due to its active cooperation with “Deutsche Bank” (Germany). In the same 1998, “IN-TERROS” group purchased the controlling interest in “Volgainvestbank” to carry out its intra-regional operations. Oil companies preferred to cooperate with “Express Volga” and the regional office of “GAZPROMbank.” In 1999, “MEN-ATEP SPb” became active in the region. The same year saw the active development of “Synergia” bank, the only regional bank carrying out transfers via the Western Union system. The regional “Sberbank” office introduced a new credit-



ing procedure, which permitted to loan up to 50 per cent of the amount of collateral. Before the 1998 crisis “SBS Agro” had credited the regional agri-industrial complex, at present these functions are carried out by the regional “Sberbank” office and “Express Volga” bank.

At present the Saratov insurance market is occupied by the regional office of “Rosstrakh (Russian Insurance),” regional company “Discount,” a number of subsidiaries of leading Moscow insurance companies (ROSNO, PSK, SOGAZ), and local insurance company ASTRO-TRANS-ZhASO. The region has developed a mechanism allowing to regulate the insurance market. Before this mechanism was effected the regional insurance market contracted in real terms, although seemed to grow. Its annual growth was below the natural inflation rate. The mechanism effected in year 2000 (selection of insurers via tenders) allowed the market to expand. For companies not being residents of the Saratov region there are set some restrictions:

- all insurance reserves shall be placed in the region;
- the part of insurance reserves collected under “agent” types shall be placed in deposit accounts of an authorized bank at a low interest. These deposits are the investment resources of our economy;
- the expenditure of reserves intended for prevention measures shall be approved by the respective ministry;
- a part of insurance premium (part of agent remuneration) shall be contributed to the extra-budgetary fund of the Regional Government.

Some of the aforementioned terms was fixed in general cooperation agreements the Regional Government concluded with the leading insurance companies. The RF Government also instructed the region to work out a number of programs financed from insurance companies’ funds.

The system of tax privileges in the framework of the budgetary process.

General norms regulating the budgetary process are set in Saratov regional law “On the Budgetary Process in the Saratov Region.” According to this law, the general system of the budgetary process looks as follows:

1<sup>st</sup> stage: prognostication of economic and social development and planning of budgetary and finance policies for the next year (May through June of the current year).

2<sup>nd</sup> stage: formation and approval of the budget (July through December of the current year).

3<sup>rd</sup> stage: administration of the budget (January through December of the reporting year).

4<sup>th</sup> stage: completion of budgetary operations, elaboration and approval of the report on the administration of the budget for the reporting year (January through April of the year following the reporting year).

As the survey reveals, the region keeps to the terms set by the law. For instance, the law on the regional budget for 1997 was signed on December 31, 1996. However, the budget (including the key indicators) is constantly amended over the year, and sometimes even in the next year (for instance, Saratov regional law “On Amendments to Saratov Regional Law ‘On the Regional Budget for 1999’” was approved by the Saratov Regional Duma on January 26, 2000. Sometimes the region fails to keep to the terms of approval of the report on the administration of the budget, for instance, Saratov regional law “On Administration of the Regional Budget for 1998” was approved by the Saratov Regional Duma on May 26, 1999.

It may be noted that law “On the Budgetary Process in the Saratov Region” contains a number of stipulations aimed to create the institutional basis of the regional economy, declares reliability and transparency as principles of the budgetary process, declares financial independence of local government (principle of independence), sets the terms of the budgetary process (see above), determines the framework delimitation of power between the executive and legislature in the budgetary process. Item 6 of Article 10 grants the right to approve increases in budgetary expenditures and decreases in revenues to the legislature.

The procedure of utilization of budgetary financial resources is set by law of the Saratov Region No. 53-ZSO of July 29, 1997, “On the Use of Financial Resources Allocated by the Regional Budget and State (Regional) Extra-Budgetary Funds for Designated Purposes.” The law defines types of the use of budgetary financial resources for other than designated purposes and determines the status of the regional Accounting Chamber as the chief authority controlling the administration of the regional budget. The law sets penalties for improper use of budgetary financial resources: in case the recipient is an organization whose primary activities are financed by the budget the penalty is imposed on its administration, in other cases the penalty is imposed on legal persons. Misused budgetary financial resources shall be returned to the budget, 12 per cent of these amounts shall be entered to the emergency fund of the regional administration.

Law “On Granting Tax Privileges in the Saratov Region” sets the following principles, on which tax privileges shall be granted:

- Only legislative authorities of respective level are vested with the right to grant tax privileges;

- Tax privileges are granted for one fiscal year in case the *law on the respective tax or fee does not stipulate otherwise*;
- Tax privileges for the current fiscal year may be granted only in case there are registered a proportional decrease in budgetary expenditures or additional budgetary revenues;
- Privileges may be granted only to groups of taxpayers;
- Privileges may be both of the absolute and target character, targeted privileges shall be granted only in case the taxpayer and the regional government conclude a tax agreement;

In February of 1997 the region effected law “On Guarantees of Private Investments in the Saratov Region.” According to the law, the state guarantees and support are provided for the projects answering the following requirements: first, it shall be done via an investment tender; second, the owner of the object of investment, investor, and regional administration shall conclude an investment agreement. The projects answering the aforementioned requirements may be granted the following privileges: lease of the land plot under the object of investment minimum for 49 years, privileged taxation, a three-year moratorium on regional legislation in case it “worsens investment conditions” for previously concluded investment projects, compensation of losses resulted from unlawful actions of state authorities and officials. Besides, the regional government shall approve the list of investment projects being of major importance for the regional economy eligible for additional privileges.

Amounts and forms of tax privileges granted to investors and investment objects are set by law “On Encouraging Investment Activities in the Saratov Region.” The privileges concern the property tax imposed on the property purchased for the implementation of investment projects. A similar tax privilege is set with regard to fees of the regional road fund (for all motor transport vehicles purchased for the implementation of investment projects, except cars). Alongside with tax privileges investors are guaranteed that their products (works and services) shall be procured by the Saratov region in case they offer the same terms and conditions as other participants of the regional procurement tender.

## **5. Indebtedness of the Saratov Region.**

The indebtedness of the region to the federal budget persists. The economic conditions formed in year 2000 promoted a relative improvement of the region’s financial standing. In year 2000, revenues made Rub. 38.4 billion (a 46 per cent increase in comparison with 1999 levels). The revenues include proceeds of commercial and not-for-profit organizations, economic agents, organizations of

the social sphere. Regional expenditures made Rub. 39.6 billion in year 2000 (increasing by Rub. 8.6 billion, or 28 per cent in comparison with figures registered in 1999). The share of expenditures for the social sphere make about 35 per cent of the total regional expenditures. The region received Rub. 5.2 billion from the federal budget and transferred to the federal budget Rub. 6.7 billion in taxes and fees. At the same time, an analysis of the structure of the aggregate financial balance reveals that the region persistently experiences a deficit of financial resources (about Rub. 1.2 billion according to the estimates for year 2000). The deficit decreased by Rub. 3.5 billion (three times) as compared with 1999, since profits increased two times, tax revenues grew by 30 per cent, and the revenues of extra-budgetary funds increased by 26 per cent. In year 2000, the regional tax burden diminished by more than Rub. 408 million (for the first time). The major part of the regional indebtedness is to "Bank Moskvyy (Bank of Moscow)," "Sberbank," and "Vneshekonombank."

## **6. Restriction on the Mobility of Goods, Services, Capitals, and Labor Force**

The most serious restrictions in this area were registered in 1999. Dmitry Fedorovich Ayatskov, Governor of the Region, issued a decree restricting grain exports from the region. This decree seriously affected only the interests of "Vneshagortorg" Ltd, owned by V. Davydov, President of the Saratov Regional Chamber of Commerce, which was engaged in grain exports. The decree had to be abolished after its unlawfulness was publicly proved, however, the Governor issued a similar decree, where the wording was changed from "prohibited to export" to "not recommended to export." Practically simultaneously there was issued a decree restricting sales of alcohol beverages produced outside the region. Representatives of large and medium-sized firms confirmed that top regional officials forced them to sell alcohol beverages produced by JSC "Liksar," the largest regional producer, referring to the necessity to support local producers.

## **7. Tender Legislation**

SARATOV REGIONAL LAW No. 4-ZSO of February 11, 1997, "ON REGIONAL STATE PROCUREMENT OF PRODUCTS AND GOODS (as amended by Saratov regional law No. 58-ZSO of November 11, 1997)" stipulates that the procedure governing tenders shall be set in accordance with the Presidential Decree of 1997, i.e. it is a rather civilized procedure. Law of the Saratov Region No. 41-ZSO of June 29, 2000, "ON THE REGIONAL FOOD FUND" may

be evaluated as a rather detailed instrument setting clear criteria for the determination of the winner of a tender. However, the local mass media contains little information about tenders organized by the regional administration (it is more true with regard to sales of state-owned property, not state procurement). No information is provided by the server of the regional administration (in contradistinction to Perm).

## **8. Regional Gas Stations**

Until 1998 the gas market was practically monopolized by “LUKoil” regional subsidiary “LUKoil – Saratov” and “Sidanko” subsidiary “Saratov – Sidanko.” The situation relatively shifted in early 1998, when there was established a number of local private small companies (“Volga 98,” etc.). However, at present “LUKoil Saratov” maintains its leading position, since, first, it is the only company disposing of a dense network of gas filling stations not only in the city of Saratov, but also in the whole region, and, second, customers find the quality of gas offered by “LUKoil Saratov” to be of better quality and are ready to pay for this (the price is higher by Rub. 0.20 to 0.30). The company attracts customers also due to its qualified personnel, stores, and car washing facilities. “LUKoil Saratov” is controlled by S. M. Glozman, a deputy of the Saratov Regional Duma.

## **9. Mass Media**

The establishment of numerous new printed and electronic mass media both at the federal and the regional levels was a general trend in the early 1990s. Among these new mass media were Saratov region-based GTRK “Saratov” (TV) and “2-aya Sadovaya” TV channel, while “Telekom TV” and IVK “Solnechny” were established somewhat later. The Governor could achieve control over all regional TV stations by forcing them to appoint managers loyal to him. Printed mass media at first did not experience such pressure, therefore newspapers “Zemskoye Obozreniye,” “Grani,” and “Vedomosti” might be considered to be in opposition. Since mid-1999, these newspapers had been subjected to informal pressure (threats to close newspapers opposing the Governor were voiced by officials of respective ministries and departments). In 1999, N. F. Zorin, the Chairman of the Saratov Journalist Union who seldom expressed discontent with the authorities, was replaced by A. V. Kostenko, director of “Slovo” publishing firm. Later Kostenko, who proved to be more loyal to the Governor and a very talented person, was appointed as a deputy of the regional Minister for Infor-

mation and Mass Media (recently he resigned from the office). At present many large Saratov-based mass media are located in “Slovo,” and the firm publishes practically all regional printed mass media. Year 2000 saw a most serious scandal related to an article in “Izvestia” newspaper, when Nikiforov, the minister for information and mass media, altered slides sent by the Moscow office of the newspaper for the publication in its local edition in order to moderate a critical article about the Governor. The second incident took place when the regional administration took control over “Saratov” newspaper. As a result, the former chief editor and the editorial staff had to establish a new newspaper (“Saratov – Stolitsa Povolzhya”). A. K. Simonov, the Chairman of the Fund for Protection of Openness commented that “due to the efforts of the regional and local authorities the Saratov Region has no really independent newspaper, except “Bogatei,” which, although publishing critical articles, is afraid to criticize the ‘very top’ officials. “Bogatei” is an opposition newspaper indeed. It published the data on property owned by relatives of the Governor, by officials of the regional government and persons close to them. Aleksandr Krutov, a “Bogatei” reporter, was attacked and beaten in the spring of year 2000. He has no doubt that the attack was contracted.

#### **10. Largest Regional Taxpayers**

Among the largest regional enterprises are those belonging to oil and natural gas industry and those exporting their products abroad. Largest oil and natural gas companies are: the subsidiary of “Mezhregionalnaya Kompaniya po Realizatsii Gaza (Inter-Regional Company for Natural Gas Sales)” Ltd., JSC “Saratovnefteprodukt (Oil Products),” “Saratov Sidanko,” “LUKoil Saratov.” Largest exporters are: JSC “Engelsski Trolleybusny Zavod (Engels Trolley Bus Plant),” JSC “Balakovorezintekhnika,” JSC “Khimvolokno,” JSC “Saratovsteklo,” JSC “Baltex” (Balashevo Textiles). Also among large taxpayers are JV “BAT – Tobacco Factory” and JSC “Liksar.” There were registered some tax avoidance cases. The regional authorities exploited these cases by establishing an extra-budgetary “Fund of the Government of the Saratov Region” (it was liquidated on January 1, 2000, as stipulated by the RF Tax Code). An enterprise threatened by a tax avoidance criminal case was offered to transfer some money to the fund, which the administration used at its discretion. Most often the financial resources accumulated by the fund were expended to finance large regional cultural events. JSC “Liksar” managed to pay much less taxes in 1999 through 2000 due to an informal agreement with the Governor (the firm financed regional soccer team “Sokol”).

## **11. Local Government**

The legal basis of the local government in the Saratov Region are the RF Constitution, federal laws (including law "On General Principles of Local Government in the Russian Federation" as amended), the Charter of the Region and Saratov Regional laws "On Local Government in the Saratov Region," "On Registration Procedures for Charters of Municipal Entities in the Saratov Region," etc. It may be noted that the region has developed its own legislative basis of local government since 1996.

A specific feature of the regional local government is such its form as territorial public self-government, which is wide-spread in the region. The city of Saratov is an illustrative example: it hosts the Association of Self-Governing Territories" (ASGT) headed by Aleksandr Emmanuilovich Dzhashitov, the author of "Self-Government. Part 1. Territorial Public Self-Government," a book published by Saratov State Technical University (Saratov, 2000, 204 pp.).

In the city there operate 39 committees of territorial public self-government, which received Rub. 688.6 thousand from the budget in 1999. ASGT (Association of Self-Governing Territories) realized three projects sponsored by the Eurasia Fund: "Structuring Civil Society via Various Forms of Self-Government" (1996), "Elaboration of Programs for Support of Territorial Public Self-Government in the Southern / Central Russia" (1999), and "Creation of Conditions for the Realization of Potential of Territorial Public Self-Government and Formation of the Institute of Self-Governing Local Communities" (2000). The region effected law "On Territorial Public Self-Government in the Saratov Region."

## **12. Construction Complex**

The industry employs about 88 thousand people, what makes over 6 per cent of economically active population. Large resources of natural raw construction materials located in the territory of the region allow to produce practically all kinds of construction materials.

There are many construction enterprises in the Saratov Region: 35 plants producing precast reinforced concrete; 4 concrete and lime plants; 5 plants producing silicate bricks; 56 ceramic bricks producing plants; 16 plants producing non-metalliferous construction materials.

"Saratovsteklo," a technical glass plant, produces a wide range of construction glass materials. Construction enterprise closed JSC "Karat Plus" offers a wide range of millwork products manufactured with highly efficient equipment

made by leading German and Italian mechanical engineering firms. The construction complex strives to develop the production of effective construction materials basing on Russia made equipment. Five enterprises belonging to the regional construction industry (JSC “ZhBK 1,” JSC ZhBK 3,” Saratov Plant KBI, JSC “Saratovgesstroj,” and JSC “Stroidetal”) produce polystyrene foam and carbide foam plastic. Balakovo-based JSC “Irgiz-gips” commissioned new capacities for production of heat insulating materials (polypolimerplaster – tyzol). The intensive development of the production of construction materials is based on the regional raw material resources, which include practically every material the construction complex requires. Some enterprises started to produce roof tiles. A plant producing ceramic bricks and tiles was built in the Marx District.

Among Volga regions, the Saratov Region is ranking second (after Tatarstan) in terms of amounts of newly commissioned residential housing. Both elite and social housing is presented on the real estate market. Certain housing privileges are granted to retired officers, migrants and refugees from neighboring CIS countries and North Caucasus. The population of the Region, residents of Northern and Eastern regions are actively investing in the residential housing construction. The region could create favorable conditions for individual builders, especially in small towns and rural areas, what encouraged the development of residential housing construction (primarily as the construction of individual houses and housing cooperatives).

### **13. Investment Policy, Tax Privileges**

In 1997 through 1998 the Saratov Regional Duma approved the legislative basis aimed to promote the regional investment process. According to law “On Guaranteeing Private Investment in the Saratov Region” the region shall be the major guarantor of private investors responsible for the compensation of losses suffered by private investors from certain budgetary and extra-budgetary sources. Besides, investors are granted the right to either purchase or lease for 49 years the land plots, where objects of investment are situated. More than 80 enterprises with participation of foreign capital operate in the region. At present, large regional investment projects are: re-equipment of JSC “Cracking” with participation of companies from USA and Spain; re-equipment of the Saratov tobacco factory with participation of BAT corporation; joint venture with American “Grace” corporation (Kalininski Rubber Plant); construction of a furniture factory in the town of Balakovo (SERIBO, France).

According to regional officials, a trend toward more active investment operations became perceptible in year 2000. The major factors positively affecting



the investment sphere were: expansion of industrial production and improvement of financial standing of enterprises across a number of industries; persistence of favorable business situation, increase in household incomes; successful administration of the regional consolidated budget. The amount of investment aimed to develop the regional economy and social sphere from all sources made Rub. 10.2 billion (128 per cent as compared with levels registered in 1999) in year 2000. Internal funds of enterprises still constitute the largest share in the structure of investment. The financial resources of the regional budgetary development fund played an important role in the crediting of investment projects in the real sector and granting of state guarantees. The most important development in this area was the fact that a considerable part of budgetary investment financing, especially of industrial objects, was allocated basing on the principle of repayment and via tenders.

In 1999 the Engels District Deputy Assembly approved regulation "On Preferential Taxation of Increments in Profits of Industrial Enterprises." According to the regulation, increments in profits of industrial enterprises were granted tax privileges related to the share of tax revenues due to local budgets. On the whole, the deputies had the right to reduce up to 50 per cent the regional tax on the property of enterprises and the local land tax, as well as reduce local taxes on property of individuals, advertisement, maintenance of the residential housing fund, and specific fees. Industrial enterprises showing profitability at or above the average profitability registered in the industry over the respective reporting period were eligible for the privileged taxation (20 enterprises were eligible in 1999). The enterprises demonstrating most considerable growth in profits are: closed JSC "Signal Gaz" (394 per cent), JSC "Zavod Avtotraktornykh Zapalnykh Svechei (Auto and Tractor Spark Plugs Plant)" (716 per cent), JSC "Nitkan Pokrovsk" (941 per cent), "Henkel Yug" Ltd. (425 per cent), JSC "Engelsski Mukomolny Zavod (Engels Flour Mill)" (322 per cent), JSC "Engelsskaya Mebelnaya Fabrika (Engels Furniture Factory)" (898 per cent), closed JSC "Signal Intelsystem" (793 per cent). The regulation of the increment of profits was extended for year 2000, it embraces 21 enterprises. However, due to amendments to the tax legislation, which deprived legislatures of local governments of the right to grant profit tax-related privileges at present the regulation is suspended. According to paragraph 1, Article 56 of the RF Tax Code tax and fee privileges are the privileges granted to certain categories of tax and fee payers with regard to eligibility criteria set by the tax legislation, while federal law "On Taxation of Profits Derived by Enterprises and Organizations" stipulates (paragraph 9, Article 6) that state authorities of the RF have the right to grant tax privileges only in

accordance with terms and procedures set in the first Section of the RF Tax Code. Since the first Section of the Tax Code currently in effect mentions no such terms and procedures the legislative authorities of RF subjects and municipal entities may not undertake measures aimed to encourage development of the industrial sector of the economy.

General norms regulating the budgetary process are set in Saratov regional law "On the Budgetary Process in the Saratov Region." According to this law, the general system of the budgetary process looks as follows:

1<sup>st</sup> stage: prognostication of economic and social development and planning of budgetary and finance policies for the next year (May through June of the current year).

2<sup>nd</sup> stage: formation and approval of the budget (July through December of the current year).

3<sup>rd</sup> stage: administration of the budget (January through December of the reporting year).

4<sup>th</sup> stage: completion of budgetary operations, elaboration and approval of the report on the administration of the budget for the reporting year (January through April of the year following the reporting year).

As the survey reveals, the region keeps to the terms set by the law. For instance, the law on the regional budget for 1997 was signed on December 31, 1996. However, the budget (including the key indicators) is constantly amended over the year, and sometimes even in the next year (for instance, Saratov regional law "On Amendments to Saratov Regional Law 'On the Regional Budget for 1999'" was approved by the Saratov Regional Duma on January 26, 2000. Sometimes the region fails to keep to the terms of approval of the report on the administration of the budget, for instance, Saratov regional law "On Administration of the Regional Budget for 1998" was approved by the Saratov Regional Duma on May 26, 1999.

It may be noted that law "On the Budgetary Process in the Saratov Region" contains a number of stipulations aimed to create the institutional basis of the regional economy, declares reliability and transparency as principles of the budgetary process, declares financial independence of local government (principle of independence), sets the terms of the budgetary process (see above), determines the framework delimitation of power between the executive and legislature in the budgetary process. Item 6 of Article 10 grants the right to approve increases in budgetary expenditures and decreases in revenues to the legislature.

The procedure of utilization of budgetary financial resources is set by law of the Saratov Region No. 53-ZSO of July 29, 1997, "On the Use of Financial Re-

sources Allocated by the Regional Budget and State (Regional) Extra-Budgetary Funds for Designated Purposes.” The law defines types of the use of budgetary financial resources for other than designated purposes and determines the status of the regional Accounting Chamber as the chief authority controlling the administration of the regional budget. The law sets penalties for improper use of budgetary financial resources: in case the recipient is an organization whose primary activities are financed by the budget the penalty is imposed on its administration, in other cases the penalty is imposed on legal persons. Misused budgetary financial resources shall be returned to the budget, 12 per cent of these amounts shall be entered to the emergency fund of the regional administration.

Law “On Granting Tax Privileges in the Saratov Region” sets the following principles, on which tax privileges shall be granted:

Only legislative authorities of respective level are vested with the right to grant tax privileges;

Tax privileges are granted for one fiscal year in case the law on the respective tax or fee does not stipulate otherwise;

Tax privileges for the current fiscal year may be granted only in case there are registered a proportional decrease in budgetary expenditures or additional budgetary revenues.

Privileges may be granted only to groups of taxpayers;

Privileges may be both of the absolute and target character, targeted privileges shall be granted only in case the taxpayer and the regional government conclude a tax agreement.

In February of 1997 the region effected law “On Guarantees of Private Investments in the Saratov Region.” According to the law, the state guarantees and support are provided for the projects answering the following requirements: first, it shall be done via an investment tender; second, the owner of the object of investment, investor, and regional administration shall conclude an investment agreement. The projects answering the aforementioned requirements may be granted the following privileges: lease of the land plot under the object of investment minimum for 49 years, privileged taxation, a three-year moratorium on regional legislation in case it “worsens investment conditions” for previously concluded investment projects, compensation of losses resulted from unlawful actions of state authorities and officials. Besides, the regional government shall approve the list of investment projects being of major importance for the regional economy eligible for additional privileges.

Amounts and forms of tax privileges granted to investors and investment objects are set by law “On Encouraging Investment Activities in the Saratov Re-

gion.” The privileges concern the property tax imposed on the property purchased for the implementation of investment projects. A similar tax privilege is set with regard to fees of the regional road fund (for all motor transport vehicles purchased for the implementation of investment projects, except cars). Alongside with tax privileges investors are guaranteed that their products (works and services) shall be procured by the Saratov region in case they offer the same terms and conditions as other participants of the regional procurement tender.

However, the practices of the Regional Government and norms of the regional budget related to the crediting of enterprises contradict the declared rejection of individual tax privileges.

The region maintains a developed system of subsidies. In 1998 through 2000 the regional budget subsidized a number of enterprises via budgetary expenditure items related to the maintenance of the infrastructure at enterprises engaged in conversion of military production. In fact, the following enterprises were subsidized: JSC “Signal,” JSC “Saratovskoye Elektroagregatnoye PO (Saratov Industrial Association for Electrical Hardware),” JSC “Saratovski Elektropriborostroitelny Zavod named after Ordzhonikidze (Saratov Electrical Equipment Plant),” GPO “Volski Mekhanicheski Zavod (Mechanical Plant),” Elektromekhanicheski zavod (Electro-mechanical plant) “Molot,” PO “Binom,” “Radiopribor” plant, GNPP “Almaz,” GNPP “Kontakt,” JSC “Tantal.”

#### **14. Price Regulation**

There are relatively few normative acts directly stipulating price regulation. DECISION OF THE SARATOV REGIONAL GOVERNMENT No. 64-P of September 7, 1998, ON ENSURING STABLE SUPPLY OF THE RESIDENTS WITH ESSENTIAL GOODS, which rigidly fixed the merchantile additions to prices of the majority of goods was abolished in six weeks. Another Decision (No. 68-P of September 14, 1998) ON URGENT MEASURES AIMED TO ENSURE FUNCTIONING OF THE ECONOMY AND FINANCES OF THE SARATOV REGION was amended in November of 1998, however, some redundant articles, for instance those stipulating non-formalized powers of local governments to control prices, remained.

Local governments have the jurisdiction over price formation. The regional Trade Ministry controls the measures they undertake in this area. Prior to 1999, the sales tax had been set at 2 per cent. Later it was increased up to 5 per cent. There were registered several instances when controlling authorities detected trade enterprises, which unjustifiably set prices too high. In such cases the Trade Ministry issued official warnings, at the same time, some measures of informal

pressure on enterprises were also undertaken in order to make them reduce prices.

## **15. Agrarian Policy**

The agricultural sector employs almost 30 per cent of the regional population. Gross agricultural produce across all categories of economic agents made Rub. 16.8 billion (104 per cent of the amount registered in 1999) in year 2000, including: agricultural enterprises accounted for Rub. 7.9 billion; individuals – for Rub. 7.6 billion; farms – for Rub. 1.3 billion. Plant rising sector produce made Rub. 9.1 billion, cattle breeding accounted for Rub. 7.7 billion. In end-year the profits of agricultural enterprises made Rub. 281 million. The profitability of plant raising was at 47 per cent, while cattle breeding on the whole still operated at a loss.

In spite of the positive dynamics of financial results observed over two years the volumes of output are still significantly below the pre-reform levels. Over the preceding years, the general trend toward contraction of tillage and livestock population in absolute terms has persisted.

On the whole, the regional agriculture (similarly to the situation across Russia) is lagging behind other sectors. The share of farms in the credits of local banks made over 8 per cent (the all-Russian average is 1 per cent). In spite of supportive measures the sector remains in a difficult financial situation. The creditor indebtedness exceeded the debtor indebtedness by 8.5 times and made Rub. 5.3 billion by end-2000. The debt structure is dominated by debts to the regional budget and state extra-budgetary funds (45 per cent of the total debt).

Regional arable lands make about 5,792.8 thousand hectares, or 4.9 per cent of the total arable lands in the Russian Federation (among all Russia's regions the Saratov Region is ranked second after the Altai Area in absolute terms and the third after the Altai Area and the Orenburg Region in terms of area actually under wheat). Therefore, the region remains a largest grain producer in Russia.

The specific feature of the Saratov regional AIC is that in 1998 the Saratov Regional Duma approved regional law "On Land," although no such federal legislation is yet in effect. The region established the precedent for Russia at large. The law permits to purchase and sell land plots, rent land and use it as collateral. The law also permits foreign companies and citizens to rent land. The law was disputed at the RF Supreme Court, as a result it shall be abolished as soon as the federal law on land is approved.

Since the law came in effect there were held 332 auctions (including 101 auctions held in year 2000). There were offered 3026 land plots (22812 hec-

tares), 1195 land plots (8290 hectares) were actually sold (bringing about Rub. 13 million). The share of agricultural lands in the structure of land plots made about 96 per cent. Basing on the results of auctions held in year 2000 the price of agricultural land was at Rub. 270 thousand per hectare, land purchased for construction of trade objects and entrepreneurial activities cost Rub. 280.5 thousand per hectare. The regional land resources across all categories makes 8244.5 thousand hectares. Farming lands make 7797.7 thousand hectares. A specific feature of the region is that farming lands are intensively plowed. The land resource structure is dominated by agricultural enterprises (82.1 per cent of the land). Natural and economic specifics determined respective specialization of different districts and micro-zones of the region. On the whole, the regional agriculture is oriented toward grain raising and cattle breeding. In year 2000 the gross grain output across all categories of producers made 2959.9 thousand metric tons, including: agricultural enterprises accounted for 2312.4 thousand metric tons; individuals – for 642.8 thousand metric tons; farms – for 4.4 thousand metric tons.

According to land owners engaged in business operations (there are 8834 private farms in the region) the region has good potential for the development of small businesses in the sphere of produce processing; however, administrative barriers encountered in the process of registration and the great scope of corruption among regional and municipal officials negatively affect the overall development of MIC.

## **16. Human Rights.**

The Saratov Region was among the first to introduce the institute of ombudsman (A. Lando, a member of the Governor's team was appointed to this office). Although at present the general status of human rights protection in the Saratov Region may be evaluated as unsatisfactory, it demonstrates a certain trend to improvement. The authors of the report are of the opinion that all regional state authorities, including law enforcement agencies, are involved in mass infringement of human rights.

The authors of the report are of the opinion that most serious violations of human rights are the following:

- refusal to grant privileges related to public utilities, transport and other services to eligible persons;
- refusal to provide eligible persons with free medicines and effective minimal medical aid in hospitals;
- pension and allowance (especially child allowance) arrears;

- wage arrears and infringement of the right for normal (safe) working conditions;
- infringement on the right of citizens for the pre-court protection of their violated rights;
- infringement upon the right of citizens for court protection and fair trial;
- infringement on minimal legal standards with regard to arrested and detained persons;
- infringement on the right for information of both journalists and citizens;
- and in many other areas of human rights.

Officials often attempt to excuse infringement on human rights referring to lack of necessary financing and hard working conditions. However, in most cases citizens' rights (for instance, the right for minimal health care and social services) are guaranteed by protected items of regional and federal budgets. Therefore, it means that the financial resources were available, but misused.

The authors also wish to focus on rapid growth of the number of state and municipal officials, who obviously strive to increase expenditures for themselves: it would suffice to look at the laws approved by the Saratov Regional Duma in December of 1999 (laws No. 67-ZSO of December 12, 1999, and No. 3-ZSO of January 6, 2000 "On Amendments to Saratov Regional Law 'On Public Service in the Saratov Region'" and No. 1-ZSO of January 6, 2000, "On Pecuniary Remuneration of Persons Holding Elective Municipal Offices and Peculiar Remuneration of Persons Holding Municipal Offices of Municipal Service." It shall be stressed that official texts of these laws were never made public.

## Supplement 7. Trade, Equalization and Regional Disparities in Canada<sup>19</sup>

### Overview

Canada is an economic union, its origins dating back to 1867. The British North America Act, 1867 provided for free mobility of goods within the economic union and conferred authority for external trade policy on the federal government. Trade policy has had a defining influence on the pattern of regional development, dating back to the National Policy of the late 19<sup>th</sup> century to the North American Free Trade Agreement on 1997.

Canada is also a federation, comprising 10 provincial governments and 3 territorial governments as well as the federal government.<sup>20</sup> The Constitution Act, 1982 mandates both levels of government to promote equality of opportunity and the provision of comparable levels of public services in all regions. The pursuit of these goals has also had a defining influence on the pattern of regional development.

The purpose of this paper is to place regional development in Canada in its historical context, to explore both the successes and failures in regional development policy and to consider the implications for intergovernmental transfers. We begin by reviewing types of economic and social integration. This is followed by a consideration of the evolution of external trade patterns and trade policy. Consideration is also given to issues of internal trade and factor mobility, especially to related constitutional proposals and the recently signed Agreement on Internal

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<sup>20</sup> Going from east to west, the 10 Canadian provinces are Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia. There are, in addition, 3 Territories—Nunavut, Northwest Territories, and Yukon. There is no definitive regional separation. For some purposes it is useful to think of the East (or Atlantic Canada)—Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick, the Centre—Quebec and Ontario, and the West—Manitoba, Saskatchewan, Alberta and British Columbia. For other purposes the country may be split into Newfoundland, the Maritimes—Prince Edward Island, Nova Scotia and New Brunswick, Quebec, Ontario, the Prairies—Manitoba, Saskatchewan and Alberta, and British Columbia. Because data is collected at the provincial level, it is often convenient to define individual provinces as regions.



Trade. Next, we explore some measures of economic and fiscal disparity across provinces, as well as constitutional recognition of policies designed to alleviate their symptoms. In this light, we review the evolution of regional development policy since its inception in the 1960s. Finally, we review the policy response to economic disparity as it impacts on the fiscal capacities of provincial (and territorial) governments.

### *Types of Economic and Social Integration*

There are many degrees of integration, both economic and social, between that of a system of unrelated state economies and the unitary national state economy. Previously unrelated state economies may enter into trading relationships with other economies. Such relationships may or may not include trade barriers such as tariffs, but, typically, would include barriers to factor mobility, especially labour mobility. A customs union would ensure the elimination of tariffs and other forms of trade barriers among member states, although allowing for a common tariff policy with regard to non-member states and barriers to labour mobility among member states.<sup>21</sup>

An economic union would extend the customs union to include free mobility of factors, especially labour, among member states.<sup>22</sup> Economic union brings with it pressures for both monetary and social union. A monetary union would, for example, eliminate problems of exchange rates among member states, especially those associated with transactions costs and exchange rate risk. Currency union would, therefore, be a next step in integration, not necessarily *the* next step. Currency union, by definition, requires that member states forfeit independence in monetary policy, in favour of a common monetary policy.

Prior to currency union, a system of fixed exchange rates, or exchange rate bands, may preserve some degree of monetary independence among member states. The European case has demonstrated that this will necessitate some degree of fiscal harmonization among member states. In particular, it will require that member states achieve a degree of common fiscal balance so as to mitigate pressures for exchange rate adjustment.

Factor mobility brings with it pressures for fiscal harmonization. Capital mobility, for example, creates pressure for harmonization of capital taxation, including corporation tax rates. Labour mobility creates pressures for harmoniza-

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<sup>21</sup> The post-war European Union would be a case in point.

<sup>22</sup> The European Economic Community (EEC) would be a case in point.

tion of net fiscal benefits—the difference between benefits derived by residents from government services and taxes paid.

A confederal union brings together member states in an economic and monetary union, but without any commitment to fiscal (or other) transfers among member states. A federal system is different: It brings with it the commitment to a central government role in making inter-state fiscal transfers. Specifically, a role can be identified for interstate transfers which promote the dual goals of fiscal efficiency and fiscal equity. Indeed, monetary union brings with it the requirement of some degree of fiscal harmonization, since member states will no longer have the relief-valve of exchange rate adjustment. In the absence of exchange rate flexibility and in the presence of labour mobility, member states may be seriously compromised by fiscal disparity.

A federal system of government is, therefore, characterized by both monetary union and fiscal harmonization. To the extent that fiscal systems are not fully harmonized, there is a case for intergovernmental transfers in order to promote goals of fiscal equity and efficiency. Federalism may dominate the unitary national state where it can be shown that differences in preferences can be better accommodated in a decentralized system than in a fully-centralized system.

If only for historical reasons, Canada can be characterized as a federal system of government. Among provinces, both economic and fiscal disparity is a defining characteristic.

### *External Trade and The Economic Union*

Trade has always played an important role in Canada's economic development and, arguably, in its political development. In this section, we provide an overview of the contribution of trade to the economic development of Canada's region. Second we attempt to answer the question: what role has trade policy played in Canada's development. Third, we reflect upon Canada's future prospects given its new trade structure.

### **The Genesis of Trade Policy in Canada**

For the first century and a half after the conquest by Great Britain, Canada managed to maintain privileged economic links with the *la mère patrie*. In fact, up until the repeal of the Corn Laws in 1846, British colonies in what is now Canada had a two-pronged economic strategy: to secure entry into Britain for Canadian grain under a preferential treatment system (no or very low tariffs) and to establish the Great Lakes-St. Lawrence route as the principal route for grain exports originating in the American midwest (Easterbrook and Aitken. 1958.

281). These privileged links with Great Britain should have benefited economic development in Eastern Canada (Atlantic Canada and Québec), if we take distance as a key variable. History teaches us that up to a point, it did not. Why?

One possible explanation might be found in trade trends: as we will discuss later, one of the most important economic characteristic in Canada's economic history has been the ever decreasing importance of Great Britain as a destination for Canada's export while the United States' importance constantly grew (Polèse. 1996. 286). This does not explain why eastern Canada has not benefited more from its strategic location with respect to trade with Great Britain, but it confirms one of regional economics' key precepts: distance matters! Another element to take into account is that even if Canada had preferential access to British markets for its grain exports, actual exports fluctuated significantly. In fact, fluctuating British prices for grain meant that for several years, low prices lead to no Canadian grain exports to Great Britain (Easterbrook and Aitken. 1958. 281).

The repeal of the Corn Laws in 1846 in effect eliminated preferential access for Canadian grain. There was also a reduction in preferential access for timber in 1845 and 1846. Furthermore, Europe suffered an economic depression in 1847. Consequently, facing important market losses, many in Canada favoured amalgamation with the United States. (Easterbrook and Aitken. 1958. 293). This movement failed, but a trade agreement with the United States was ultimately signed.

### *Free Trade, Round 1*

In 1854, the United States and United Canada signed a free trade deal, the Reciprocity Treaty (Hébert. 1988. 78; Trudel. 1968). For Canada, this was as much a defensive gesture to compensate for the loss of preferential access to Great Britain's markets as it was an attempt to have increased access to the U.S. markets.

In the years that followed, the trade agreement between Canada and the United States increased significantly. Export from Canada's maritime colonies (Nova Scotia, Prince Edward Island and New Brunswick) to the U.S. doubled between 1854 and 1855 (Desjardins, Deslièrres and LeBlanc. 1995. 214). One factor that could explain – at least partly – this surge in demand may be the American Civil War. In western Canada, and this fact remained true even after the end of the Reciprocity Treaty, north-south trade was significantly more important than east-west trade, in part as a result of better transportation networks (Easterbrook and Aitken. 1958. 344).

During this period, an ambitious project was launch to complete the St.

Lawrence canals. As mentioned earlier, the goal of this policy was to develop the St. Lawrence route as the preferred itinerary for American exports to Europe. Simultaneously, and again to foster Central Canada's development, railway construction projects were put in place with government support (Easterbrook and Aitken. 1958. 294-319).

One must note that this government policy to stimulate economic development was not geographically neutral. It was concentrated in central Canada: "when the decade of the 1850's closed there was still no railway in existence between the colony on the St. Lawrence and the maritime colonies of New Brunswick and Nova Scotia. Nor was there any railway in existence or even seriously considered [...] between Canada and the struggling British colony on the Pacific coast" (Easterbrook and Aitken. 1958. 318).

#### *A Protectionist Canada: the National Policy*

The American Civil War, which was a source of increased demand for Canadian products, also became one of the reasons why the United States chose not to renew the Reciprocity Treaty. At the end of the war, the new government favoured a policy committed to high tariffs and industrial expansion (Easterbrook and Aitken. 1958. 361). Furthermore, some in the United States suspected Canadians to have favoured the South during the war.

When the United States put an end to the period of free trade in 1864, the various British Colonies, in some analysts' opinion, chose Confederation as a Second Best solution. North-South links were more natural and the development of an east-west Canadian economy was an exercise against the tide (Hébert. 1988. 78-79). An illustration of this is the fact that during the infancy stage of Canada, it attempted on various occasions to negotiate a new free trade deal with the United States, only to meet an unwilling partner.

It is in this context that in 1879, Canada finally went forth with its "National Policy" which substantially increased tariffs on semi-finished goods, industrial materials, manufactured equipment and finished consumer goods (Gunderson. 1998. 212-213; Pomfret. 1993. 97; Hébert. 1988. 79). It is noteworthy to point out that this movement towards a high tariff policy originated in what was – and is still – Canada's industrial heartland: the Toronto-Hamilton region. (Easterbrook and Aitken. 1958. 372).

The period between 1879 and 1887 saw a refinement and extension of the National Policy tariff. To further promote the development of this east-west economy, the completion of a transcontinental railway and a policy of colonisation in western Canada then became national objectives.

The Maritimes seem to have gained initially from Confederation. Its manufacturing sector (e.g. processing wood, leather, textiles, etc.) experienced rapid expansion for approximately 20 years. Unfortunately, the region did not manage to maintain this trend. Some argue that this poor economic performance is the result of the loss of comparative advantage in natural resources coupled with the great distance to important markets and the concentration of the financial sector in central Canada (Desjardins, Deslierres and LeBlanc. 1995. 219). In central Canada, the National Policy was becoming an attempt to protect infant manufacturing industries from U.S. competition (Anderson. 1998. 161)

### *The 20th Century*

As second period of protectionist trade policy corresponds to the Great Depression. Between 1930 and 1933, what became known as Bennett tariffs were put in place as much as a reaction to U.S. protectionism as a formula to fight high levels of unemployment in Canada (Pomfret. 1993. 97).

After World War II, Canada has been a consistent participant to GATT and the WTO. Through the successive GATT rounds (Kennedy, Tokyo and Uruguay) Canada has gradually reduced its level of trade protection (Brown. 1998. 296). Before the recent wave of bilateral trade agreements (FTA and NAFTA), only in 1965 did Canada modify this strategy.

A defining moment in Canada's contemporary economic development was the bilateral sectoral trade agreement signed, in 1965, with the United States. It became commonly known as the Auto Pact (Anderson. 1998. 161; Polèse. 1996. 285; Pomfret. 1993. 103). Its ultimate impact was to rationalise the North American automobile production sector: the objective was to generate economies of scale for the big three U.S. automobile manufacturers by creating for them a single Canada-U.S. market. This policy became a tremendous stimulus for central Canada's economy.

### *Free Trade, Round 2*

In 1989, Canada entered a bilateral trade pact with the United States (Canada-U.S. Free Trade Agreement – FTA) which arguably had as much a psychological as a direct economic impact on the country. It was a firm break from the longstanding policy of trying to benefit from the United States proximity while at the same time maintaining barriers between the two countries.

Later, Canada and the United States extended the FTA to include Mexico. Canada's decision to take part in the North American Free Trade Agreement (NAFTA) was as much a defensive action as anything else. The alternative would

have been a situation often characterised as “hub and spoke” where the United States would have negotiated bilateral agreements and in effect built itself a comparative advantage by having free access to markets not as open to its other partners (Britton. 1998. 171).

The NAFTA per se did not impede national governments from having in place regional development programs. In fact, it did directly put in place neither new rights nor obligations concerning subsidies in general. As far as regional development initiatives were concerned, NAFTA stipulated that national governments remained free to support economic activities to achieve objectives such as those pertaining to regional development. This being said, any government measure which causes significant damages to other country’s producers is countervailable (Affaires extérieures et Commerce extérieur Canada. 1993. 17).

Note in closing that Canada has always had an array of non tariff barriers (NTB), although these were usually used for reasons other than protection and, generally, were less important than in other countries (Pomfret. 1993. 97).

### *The Political Economy of Trade*

Today’s Canadian economy is the direct result of protectionist policies. It was fostered by the National Policy. In fact, the industrialisation of central Canada was supported both by protectionist policies and the conscious stimulation of east-west trade flows. The development of Canada’s industrial heartland also benefited from several other measures to contribute to its development, including infrastructure development and policies supporting R&D and the adoption of new process technology (Britton. 1998. 178).

As mentioned earlier, railways have constituted a tool to foster trade, both internationally and interprovincially. For the Maritime provinces, this transportation infrastructure developed in the later part of the 19th century constituted a means of reducing the cost of transporting resources like coal and lumber to markets in central Canada. For central Canada, not only did these rail links enable it to sell part of its manufacturing production on Maritimes markets, it enabled its industries to access international markets through the port of Halifax, for example, when the St. Lawrence seaway was frozen in the winter, as well as to suffocate potential competitors from the Maritimes by exposing them to harsh competition from central Canada (Pomfret. 1993. 136).

For western Canada, whose economy arguably was the most ill served by Canada’s protectionist policy during the second part of the 19th century, the Crow’s Nest Pass Agreement of 1897 became a key government tool to help the region transport its grain production eastward. This was achieved when federal

government gave the Canadian Pacific Railway (CPR) subsidies in return for lower rates for grain transportation (Pomfret. 1993. 144).

### *The data*

Historical trade data prior to 1926 is unreliable at best. Starting our quantitative analysis at that point, we see that Canada's trade was adversely affected by the Great Depression, as can be expected (Polèse. 1996. 284). In 1931, international trade –measured as a percentage of GDP – fell to 10% before increasing to approximately 20% in the 1940s, a direct consequence of World War II. The situation remained relatively stable during the 1950s, with even a slightly decreasing trend over the period. But since the early 1960s, a very clear and constant trend has emerged: international trade accounts for more and more of Canada's economic activity. Notwithstanding a slight shortfall during the 1988-1992 recession, international trade as a percentage of GDP has consistently increase to generate over a third of the country's economic activity by 1995.

A very important characteristic of trade data is the place occupied by the United States in Canada's trade. The United States are now the destination of over 80% of Canada's exports (Polèse. 1996. 286). It has not always been the case. The United States only became Canada's principle trading partner after World War II. Before 1939, the United States represented at most 40% of Canada's exports destination. As we indicated earlier, Canada's southern neighbour was omnipresent throughout Canada's development. Data shows that notwithstanding the various trade policies undertaken by Canada, the United States relative importance grew constantly.

What has in fact happened since 1945 is the continentalisation of the Canadian economy. Ontario has greatly benefited from this trend, with its strategic location, close to United States' mid-west. This trend accelerated even before the FTA and NAFTA. For example, Ontario's share of national exports has increased from 50% in 1979 to 58% in 1990. At the same time, Atlantic Canada's share of national exports has decreased from 6,6% to 4% (Polèse. 1996. 294).

What might be an even more significant trend, especially in the context of a federation like Canada, is the decreasing importance of interprovincial trade (Polèse. 1996. 296-297). Canada's two most populous provinces, Ontario and Québec, have seen the relative importance of interprovincial trade for their respective economy decrease significantly over the past few decades.

In Québec's case, three decades ago, interprovincial manufacturing trade doubled international manufacturing trade measured in dollar value. In 1990, the relative importance was reversed: to use Polèse's expressions, Québec is slowly

experiencing a globalisation – or one could say americanisation or continentalisation – of its economy paralleled by the de-canadianisation of that economy.

The trend in Ontario is even stronger: international trade overtook interprovincial trade in importance in the early 1980s. In 1990, international trade had actually more than doubled interprovincial trade in relative importance, the greatest part of the former being trade with the United States.

What we are experiencing is in fact the strengthening of regional cross-border economies (Brown and Anderson. 1999; Brown. 1998; Gunderson. 1998). There is a trend for every Canadian region to be more or less integrated with neighbouring U.S. regions: Atlantic Canada and New England; Québec and New England; Ontario with the Great Lakes, Mid Atlantic and South Atlantic states; the Prairies with the Plains; Alberta/BC with the Rocky Mountains and the West. This is not a one way relationship: U.S. regions are also integrated with neighbouring Canadian regions, although the level of integration from a U.S. perspective is smaller. This may very well be a reflection of the relative size of the national economies.

All this being said, the Canada-U.S. border is still an important factor. McCallum (1995) has estimated that for 1988, in a borderless Canada, interprovincial (east-west) trade would account for 4% of shipments rather than the 23% found. Trade destined to the United States should account for 43% of shipments instead of 24%! McCallum recognises that his data predates both FTA and NAFTA, but argues that “it is not a foregone conclusion that NAFTA will lead to a radical shift in Canadian trade patterns over the next decade or so” (McCallum. 1995. 622).

McCallum is correct to say that Canadian trade patterns will not experience a dramatic shift in the short term, but there does seem to be a definite trend towards relatively greater north south trade (Britton. 1998. 179; Polèse. 1996). Using the international shift-share technique to compare the geographical engines of growth of provincial economies we find that this trend towards the continentalisation of Canada’s economy is far from homogeneous (please see Tables 1-5 in the Appendix).

Dividing the traditional components into sub-components, we went on to analyze the impact of U.S. imports and exports, non-U.S. imports and exports and of the national domestic demand for the three traditional components: national, industry-mix and regional shifts.<sup>23</sup> We found that overall, the national shift

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<sup>23</sup> The following section presents a summary of the results found in Chapter 11 of Desjardins, 1997. 199-239.



sub-components suggested a weakening of east-west trade, a strengthening of north-south trade and a weakening of trade with countries other than the U.S.

The results for the sub-components of the industrial-mix shift were less conclusive. Overall, only two provinces seemed to perform better on the U.S. market in the second period than in the first. No province performed better on international markets other than the U.S. Finally, only three provinces (Quebec, Ontario and British Columbia) experienced a decline in the relative importance of the domestic demand shift.

The results for the regional shift component were relatively similar to those for the industry-mix component. Three provinces fared better in the second period than in the first on the U.S. market. For non-U.S. international markets, six provinces performed better. Finally, all provinces but New Brunswick, Quebec and Ontario saw the value of their domestic demand shift increase.

Given these contradictory results, we had to look at alternative aggregates, which we present in Tables 4 and 5. Isolating the import, export and domestic demand shifts, we found that indeed four provinces experienced an overall decrease in the relative value of their domestic demand shift. These are New Brunswick, Quebec, Ontario and British Columbia. All but three provinces experienced a relative increase of the export shift, while two had a relative increase of their import shift.

The final piece of the puzzle is offered by Table 5. We find that eight of Canada's ten provinces have the greatest share of growth resulting from domestic demand shift. The two exceptions are Ontario, with U.S. trade as its principal source of growth, and New Brunswick, with non-U.S. trade as its principal source of growth.

Six provinces had the relative importance of their U.S. trade shift increase. There also were six provinces with relatively greater non-U.S. trade shifts. Finally, four provinces had the relative importance of domestic demand decrease. These four provinces have demonstrated a weakening of east-west links while strengthening their north-south trade. These provinces are Quebec, Ontario, British Columbia and New Brunswick. New Brunswick's situation is peculiar in that the relative increase of its non-U.S. trade shift is much greater than that for U.S. trade.

We can conclude that the U.S. economy is increasingly important for Canada's economic development, but significantly more so for Canada's biggest provincial economies.

## **Internal Trade and The Economic Union**

Section 121 of the Constitution Act, 1982 guaranteed the free flow of goods within the economic union. It did not, however, make explicit reference to the free flow of capital and labour within the economic union.

Federal-provincial negotiations directed at enhancing internal free trade repeatedly met with failure. The Federal government adopted an alternative tack to intergovernmental negotiations in 1982, incorporating language about free trade as part of its proposals for constitutional reform.

First, it was proposed that the common market clause (section 121 of the Constitution Act, 1867) be broadened. Second, it was proposed that the federal government be given a specific mandate to manage the economic union. This proposal would have required an extension of the existing section 91. Third, it was proposed that existing areas of provincial jurisdiction be respected and, in some cases, extended. In particular, any future use of the spending power would be restricted.

With regard to the common market clause, the existing prohibition on barriers to the free trade of goods among provinces would be broadened to include the free movement of services, capital, and labour. Exceptions would be allowed for reasons of national interest, for regional development, and, notably, for any federal legislation enacted to further the principle of equalization. Specifically, proposal 14 to extend the existing section 121 stated:

- 1) Canada is an economic union within which persons, goods, services and capital may move freely without barriers or restrictions based on provincial or territorial boundaries.
- 2) Neither the Parliament or Government of Canada nor the legislatures or governments of the provinces shall by law or practice contravene the principle expressed in subsection (1).
- 3) An important qualification was, however, provided in subsection (3) of the proposal:
- 4) Subsection (2) does not render invalid
  - i) a law of the Parliament of Canada enacted to further the principles of equalization or regional development;
  - ii) a law of provincial legislatures enacted in relation to the reduction of economic disparities between regions wholly within a province that does not create barriers or restrictions that are more onerous in relation to persons, goods, services or capital from outside the province than it does in relation to persons, goods, services or capital from a region within the province; or

iii) a law of the Parliament of Canada or the legislature of a province that has been declared by Parliament to be in the national interest.

Finally, there was an important provision directed at ensuring provincial agreement:

- 5) A declaration referred to in paragraph (3)(c) shall have no effect unless it is approved by the governments of at least two-thirds of the provinces that have, in aggregate, according to the then latest general census, at least 50 percent of the population of all the provinces.

With regard to the management of the economic union, this area was recognized to be one of necessarily joint responsibility, requiring provincial concurrence and some provision for opting out. Legislation affecting the economic union would be voted on in a proposed Council of the Federation. Specifically, proposal 15 was to add new section 91a to the Constitution Act, 1867, which would read as follows:

Without altering any other authority of the Parliament of Canada to make laws, the Parliament of Canada may exclusively make laws in relation to any matter that it declares to be for the efficient functioning of the economic union.

An Act of the Parliament of Canada made under this section shall have no effect unless it is approved by the governments of at least two-thirds of the provinces that have, in the aggregate, according to the then latest general census, at least 50 percent of the population of all the provinces.

The legislative assembly of any province that is not among the provinces that have approved an Act of the Parliament of Canada under subsection (2) may expressly declare by resolution supported by 60 percent of its members that the Act of Parliament does not apply in that province.

A declaration made under subsection (3) shall cease to have effect three years after it is made or on such earlier date as may be specified in the declaration.<sup>21</sup>

One interpretation of the proposals is that as long as the federal government could ensure the integrity of the economic union through section 91a and the amendment to section 121, it would be willing to transfer explicit jurisdiction to the provinces in other areas. Within this framework, it was argued that labour market training could be recognized explicitly as an area of exclusive provincial jurisdiction, and that federal spending could be withdrawn from that and other areas that are most appropriately viewed as being areas of provincial jurisdiction, such as tourism, forestry, mining, recreation, housing, and municipal affairs. Of course, the withdrawal of federal spending would not preclude the establishment of future federal-provincial cost-sharing agreements and other legislation in areas that are aimed at enhancing the functioning of the economic union.

With regard to the use of the spending power in areas of exclusive provincial jurisdiction, it was proposed that no new shared-cost programs or other forms of conditional transfers that affect areas of exclusive provincial jurisdiction be introduced without the agreement of at least seven of the provinces representing 50 percent of the population. In addition, “reasonable compensation” would be made to those provinces (up to three) that choose to opt out, provided that they establish their own programs consistent with national objectives. This proposal appears to weaken the spending power as an instrument of federal policy. In contrast to the Meech Lake provision that allowed for opting out only, this proposal would require the federal government to gain the prior consent of the necessary number of provinces to establish new shared-cost programs. Again, the form of the compensation for opting out was not spelled out.

The aim of proposal 14 was so-called negative integration--the elimination of barriers that interfere with the efficient functioning of the economic union--and the aim of proposal 15 was so-called positive integration--the pursuit of policies that enhance the efficient functioning of the economic union. In this regard, the exception made for federal laws that further the principles of equalization and regional development deserves comment.

First, it can be argued that a fully effective equalization system is an instrument of positive integration: it enhances the efficient functioning of the economic union. Indeed, a central thesis of this study is that a variety of federal-provincial redistributive programs enhance efficiency. In this light, no exception is needed for “equalization” in the economic union proposals.<sup>22</sup> Furthermore, since the power to make equalization payments appears to fall well within the federal government’s existing constitutional authority, it would not be affected by the provisions of proposed section 91a.

Second, the exceptions for federal laws enacted to further the principles of equalization and regional development and for provincial laws aimed at the reduction of intraprovincial regional disparities mesh proposed section 121 with existing section 36 of the Constitution Act, 1982. Section 36 defines equalization as the promotion of equality of opportunity as a commitment of both levels of government, including the furthering of economic development to reduce disparities in opportunities and the provision of essential public services of reasonable quality to all Canadians. It might be argued that this meshing of the efficiency-oriented economic union clause with the equity-oriented equality of opportunity clause would provide some guidance to the courts in the event of a challenge under proposed section 121 to some aspect of federal or provincial social policies. The implication is that equity considerations may take precedence over efficiency considerations in the application of common market principles.<sup>23</sup>

## The Internal Trade Agreement

Ultimately, constitutional change eluded policy makers. Instead, renewed efforts were made at achieving intergovernmental agreement. The Agreement on Internal Trade (AIT). The goal of the AIT is to eliminate barriers to trade, investment and mobility within Canada. It came into force on July 1, 1995. Being an evolutionary process, it is regularly updated.

The Agreement on Internal Trade six general rules are: (Internal Trade Secretariat)

- *Non-discrimination*: establish equal treatment for all Canadian persons, goods, services and investments.
- *Right of entry and exit*: prohibiting measures that restrict the movement of persons, goods, services or investments across provincial or territorial boundaries.
- *No obstacles*: ensuring provincial/territorial government policies and practices do not create obstacles to trade.
- *Legitimate objectives*: ensuring provincial/territorial non-trade objectives which may cause some deviation from the above guidelines have a minimal adverse impact on interprovincial trade.
- *Reconciliation*: providing the basis for eliminating trade barriers caused by differences in standards and regulations across Canada.
- *Transparency*: ensuring information is fully accessible to interested businesses, individuals and governments.

Note that under article 508 of the Agreement, a party may under exceptional circumstances exclude a procurement for regional and economic development purposes. Furthermore, article 1801 states that: “the Parties recognize that measures adopted or maintained by the Federal Government or any other Party that are part of a general framework of regional economic development can play an important role in encouraging long-term job creation, economic growth or industrial competitiveness or in reducing economic disparities.” Consequently, several components of the Agreement do not apply to measures adopted or maintained by the Federal Government or any other Party that is part of a general framework of regional development. (Internal Trade Secretariat. 1999).

## Measures of Economic and Fiscal Inequality

### *Economic Indicators by Province*

Table 1 lists data by province on (i) GDP per capita, (ii) GDP per worker, (iii) unemployment rates, and (iv) labour force participation rates. These data reveal a wide dispersion in GDP per capita, ranging from 73% of the average to 140% of the average. All four Atlantic provinces (Newfoundland, Prince Edward Island, Nova Scotia, and New Brunswick) are below average; all Western provinces are above average. Nonetheless, there is some indication of convergence over time.

TABLE 1. ECONOMIC INDICATORS BY PROVINCE, 1996  
(RATIO TO ALL PROVINCE AVERAGE OF 100)

	Nominal GDP per capita	Nominal GDP per worker	Unemployment Rate	Labour Force Participation Rate
Newfoundland	73	96	178	84
Prince Edward Island	82	83	134	104
Nova Scotia	82	89	115	95
New Brunswick	86	93	107	95
Québec	99	101	108	101
Ontario	119	111	82	106
Manitoba	100	95	69	101
Saskatchewan	107	105	60	98
Alberta	140	122	65	111
British Columbia	112	106	81	105

Source: Adapted from Coulombe<sup>24</sup>

There is less dispersion in GDP per worker, ranging from 83% of the national average to 122%. The Atlantic provinces remain below average, but are closer to that average. Again, there appears to be evidence of convergence over time.

There is wide dispersion in unemployment rates, ranging from 60% of the national average in Saskatchewan to 178% of the national average in Newfoundland. All Atlantic provinces are above average; all Western provinces are below average. There is no indication of convergence over time.

<sup>24</sup> Serge Coulombe, "Economic Growth and Provincial Disparity: A New View of an Old Canadian Problem", C.D. Howe Institute Commentary (Toronto: C. D. Howe Institute, 1999).

Finally, labour force participation rates range from 84% of average to 111% of average. There does appear to be some convergence over time.

Table 2 presents data on provincial shares in population and GDP for 1996. The Atlantic provinces as a whole account for roughly 6% of national GDP. This is, however, less than the region's population share of roughly 8%.

TABLE 2. SHARES OF POPULATION AND GDP BY PROVINCE, 1996 (PER CENT)

	Population Share	GDP Share
Newfoundland	2	1
Prince Edward Island	.5	.3
Nova Scotia	3	2
New Brunswick	3	2
Québec	25	22
Ontario	38	40
Manitoba	4	3
Saskatchewan	3	3
Alberta	9	12
British Columbia	13	13

Source: Author's calculations based on data provided by the Federal-Provincial Fiscal Relations Division, Finance Canada.

#### *Fiscal Indicators by Province*

At a crude level, Table 2 would suggest that the Atlantic region's share of total provincial revenues based on GDP would be less than its share based on population—a measure of fiscal disparity, where the standard is equal per capita revenues.

Fiscal disparity is to some extent a symptom of economic disparity. It is more than this, however, since fiscal disparity can reflect as much differences in the *composition* of provincial GDP per capita as differences in the *size* of provincial GDP per capita.

Table 3 provides detail on provincial fiscal capacities.<sup>25</sup> The first column shows that own-source revenue generating capacity ranges from 66% of average

<sup>25</sup> Fiscal capacities are measured in terms of per capita revenue generating capacities, based on the Representative Tax System (RTS). The RTS defines a set of standardized

to 141%--a high/low ratio of 2.13. All Atlantic provinces are below average; also Manitoba and Saskatchewan; also Quebec. These are the, so-designated, have-not provinces.

**TABLE 3 INDICES OF FISCAL CAPACITY, FISCAL YEAR 1996/97**

	Own Revenues (Standardized)		Own Revenues plus Equalization		Own Revenues plus Equalization and CHST	
	(\$ per capita)	(% of national average)	(\$ per capita)	(% of national average)	(\$ per capita)	(% of national average)
Newfoundland	3,480	66	5,278	95	5,895	97
Prince Edward Island	3,751	71	5,258	95	5,785	96
Nova Scotia	3,942	75	5,199	95	5,748	95
New Brunswick	3,956	75	5,269	95	5,804	96
Québec	4,622	88	5,181	95	5,805	96
Notario	5,408	103	5,408	97	5,846	97
Manitoba	4,218	80	5,212	95	5,742	95
Saskatchewan	5,067	96	5,287	95	5,783	96
Alberta	7,407	141	7,407	133	7,816	129
British Columbia	5,681	108	5,681	102	6,155	102
All provinces	5,254	100	5,551	100	6,052	100
High/low		2.13		1.43		1.36

Source: Author's calculations based on data provided by the Federal-Provincial Fiscal Relations Division, Finance Canada

The Equalization program reduces the degree of fiscal disparity. Equalization transfers to have-not provinces, designed to raise their per capita revenues to a defined standard, result in fiscal capacities that range from 95% of the national average to 133% of the national average. If cash transfers under the Canada Health and Social Transfer (CHST) are taken into account, fiscal capacities vary between 95% of the national average and 129% of the national average.

#### *Regional Disparity and The Constitution Act, 1982*

Section 36 of the Constitution Act, 1982, entitled "Equalization and Regional Disparities", is of particular relevance here. It contains two parts, which read as follows:

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provincial tax bases and assesses revenue generating capacity relative to a national average tax rate.



Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to

- (a) promoting equal opportunities for the well-being of Canadians;
- (b) furthering economic development to reduce disparity in opportunities; and
- (c) providing essential public services of reasonable quality to all Canadians.

(d) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

These provisions seem to have two sorts of effects on federal responsibilities and obligations. First, section 36(1) explicitly recognizes the pursuit of equity as a national objective that is the joint responsibility of the federal government and the provinces. This is important since much of what both the federal and provincial levels of governments do has a significant equity dimension. Thus, to the extent that the federal government has an interest in the equitable delivery of provincial programs, section 36(1) could be used to justify federal involvement in provincial programs through the spending power. Section 36(1) also enshrines equality of opportunity as an added dimension of equity. That is, it goes beyond a commitment to the provision of reasonably comparable public services at reasonably comparable levels of taxation; it commits also to equality of economic opportunity through regional development policy.

Second, section 36(2) imposes an obligation on the federal government to pursue equalization objectives, or at least commits it to the principle of making equalization payments. The section does not restrict what is meant by an equalization payment; it could include any sort of federal-provincial transfer that has equalizing consequences. As discussed later, Canada's Equalization system, that provides for payments from the federal government to the poorer provinces, contributes explicitly to this objective. Other transfer schemes, however, do so implicitly. If taken literally, section 36(2) could have serious implications not only for the structure of the formal Equalization scheme itself, but for other major federal-provincial transfers as well. It should be noted that it is not clear to what extent section 36(2) is legally binding, or justiciable, on the federal government—it is stated as a general principle rather than as a specific obligation.

## **The Policy Response**

Appropriately, Canada has developed two strands of policy response in the face of regional inequality: Regional development policies and policies directed at equalizing provincial fiscal capacities. Regional economic development policies have, typically, had their origins in the policy “objective of equality of opportunity”—that Canadian’s have the right to live and work in the location of their choice. Policies directed at equalizing provincial fiscal capacities have had their origins in the notion of fiscal equity—that Canadian’s have the right to comparable levels of public services at comparable levels of taxation, regardless of province of residence.

### *Regional Development Policy*

Regional development remains a relatively new policy field in Canada. Indeed, the federal government had no explicit policy of regional development from Confederation to the late 1950s. It has since, however, made up for lost time. From its modest beginnings, regional development policy has seen many dramatic twists and turns over the past thirty years. Rarely have political leaders been satisfied for very long with the various new approaches introduced. To be sure, the search for a panacea, for a quick fix, has been a factor, as has the need to update the policy to reflect changing economic circumstances. But the desire by Ottawa to secure "visibility" and "due credit" for federal money spent has been equally important - if not more so - in defining and redefining Canadian regional development policy. The point is that federal regional development efforts have been as much about politics as they have been about economics.

The purpose of this section is to review briefly the historical evolution of Canada's regional development policy, how intergovernmental relations in the field have developed and to report on their success or lack of success. It seeks to provide a broad perspective by looking not only at the substance of the policy but also at the forces that have shaped regional development efforts. Finally, it identifies "lessons learned" from past efforts.

### *An Alphabet Soup*

Though the matter had been debated many times in royal commission reports and at federal-provincial meetings, it was the 1960 budget speech that unveiled the first of the many measures Ottawa has developed to combat regional

disparities.<sup>26</sup> The budget permitted firms to obtain double the normal rate of capital-cost allowances on most of the assets they required to produce new products - if they located in designated regions.<sup>27</sup> The thinking behind this initiative was that "footloose" industries could be attracted to slow growth regions. However, the thinking neglected to note the fact that well-run "footloose" industries can locate anywhere they like, but "where they like" is usually where they are now.<sup>28</sup> Shortly after, Parliament passed the Agriculture Rehabilitation Act (ARDA) in an attempt to rebuild the country's depressed rural economy.<sup>29</sup> ARDA was a federal-provincial effort designed to increase the productivity of small farmers by providing assistance for alternative use of marginal land, developing water and soil resources and setting up projects to support people in non agriculture natural-resources industries. The initiative was soon found wanting, largely because it was not sufficiently flexible and lacked a clear geographical focus.

ARDA thus beget FRED (Fund for Regional Economic Development) in 1966. FRED did have a clear geographical focus. It was concentrated in five designated regions with widespread low incomes and major problems of economic adjustment. Typically, a FRED plan provided for industrial development measures, employment-development activities and industrial infrastructure. Soon, however, FRED was found wanting from both a technocratic and political perspective. As for the technocratic view, senior government officials felt that FRED made little provision for coordinating a growing number of federal and federal-provincial initiatives in the economic development field. They were also con-

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<sup>26</sup>. See James P. Bickerton, *Nova Scotia, Ottawa and Politics of Regional Development* (Toronto: University of Toronto Press, 1990) and Donald J. Savoie, *Regional Economic Development: Canada's Search for Solutions* (Toronto: University of Toronto Press, 2nd edition, 1992).

<sup>27</sup>. See, among others, Anthony Careless, *Initiative and Response: The Adaptation of Canadian Federalism to Regional Economic Development* (Montreal: McGill-Queen's University Press, 1977).

<sup>28</sup>. See, for example, Benjamin Higgins, *Entrepreneurship and Economic Development: Moncton and Cape Breton* (Moncton: Canadian Institute for Research on Regional Development, 1992), p. 28.

<sup>29</sup>. *Ibid.*

vinced that in concentrating as it did on some of the poorest regions in the country, FRED was far too restrictive to meet the challenges of the 1970s.<sup>30</sup>

FRED thus gave way to the Department of Regional Economic Expansion (DREE). Established in 1969, it introduced two major new programs. One was designed to attract private sector investment to slow growth regions through cash grants. The other - labelled the Special Areas Program - was designed to promote faster industrial growth. In the case of the latter, twenty-three areas were designated and each became the subject of a federal-provincial agreement. DREE borrowed from François Perroux's growth pole concept - or at least thought it did - to give life to its Special Areas Program. Perroux had argued that economic activity tends to concentrate around certain focal points. Growth, he wrote: "does not appear everywhere and all at once, it reveals itself in certain points or poles, with different degrees of intensity; it spreads through diverse channels."<sup>31</sup> The federal government embraced Perroux's views mainly because it seemed to describe Canada's situation well. For senior DREE officials, the main difference between Ontario and the Maritimes was that Ontario had major urban centres with vigorous economic growth to which people from northern Ontario could move. The Maritimes had few cities capable of strong growth and providing employment; consequently, many people remained in economically depressed rural areas. The growth pole concept, it was believed, would create new opportunities at selected urban centres. Economic growth would take place through movement and change within regions, rather than between regions.

Within a few short years, DREE decided to scrap its Special Areas Program. The reason given was that the approach was too "restrictive," that its concentration on a limited number of areas incurred the risk of overlooking economic development opportunities elsewhere. Henceforth, DREE would "pursue viable" opportunities whether they were in urban or rural areas, though it would be preferable if they were located in slow growth regions, and priority status would still be given to these. In 1973, the department introduced a new approach - the General Development Agreement (GDA).<sup>32</sup> It was remarkably flexible, capable of

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<sup>30</sup> T.N. Brewis, "Regional Development in Canada in Historical Perspective," in H. Lithwick (ed.), *Regional Economic Policy: The Canadian Experience* (Toronto: McGraw-Hill Ryerson, 1978), p. 220.

<sup>31</sup> François Perroux, *L'Économie du XXe siècle* (Paris: Presses universitaires de France, 1969), p. 179.

<sup>32</sup> See Donald J. Savoie, *Federal-Provincial Collaboration: The Canada-New Brunswick General Development Agreement* (Montreal: McGill-Queen's University Press, 1981).

supporting virtually any imaginable type of government activity. Negotiated by Ottawa with all provinces except Prince Edward Island (which was already covered by the fifteen year FRED plan), a GDA provided a broad statement of goals for both levels of government to pursue, outlined the priority areas, and described how joint decisions would be taken. GDAs were enabling documents only and did not in themselves provide for specific action; projects and precise cost-sharing arrangements were instead presented in subsidiary agreements that were attached to the umbrella-type GDAs.

From a strictly administrative point of view, all nine GDAs were basically similar. Each had a ten-year life span; each stipulated that DREE and the provincial government in question would, on a continuing basis, review the socio-economic circumstances of the province; and each outlined a similar process for joint federal-provincial decision-making. They differed only in cost-sharing for subsidiary agreements. Under the GDA approach, DREE was granted the following authority to share the cost of a subsidiary agreement: up to 90 percent for Newfoundland, 80 percent for Nova Scotia and New Brunswick, 60 percent for Quebec, Manitoba, and Saskatchewan, and 50 percent for Ontario, Alberta, and British Columbia.<sup>33</sup> The variety of projects supported under the various GDAs was truly remarkable. Virtually every economic sector was covered, particularly in the Atlantic provinces. GDAs sponsored, among *many* others, projects in tourism, urban development, the fishery, recreation, mineral development, rural development, agriculture, forestry, industrial development, communications, cultural infrastructure, and ocean-related industries.<sup>34</sup>

By the late 1970s, however, DREE was being assailed from a number of quarters, but particularly from central agencies in Ottawa. For one thing, the country's economic picture had changed since DREE was first established. The term stagflation had crept into the economic vocabulary and Canada's industrial heartland - that is, the economy of southern Ontario and Montreal - was getting "soft."<sup>35</sup> The Liberals lost the 1979 election and the Conservative Clark government's tenure in office was too short lived to reform regional development policy in any meaningful way. Returned to office in 1980, the Trudeau government quickly set out to revamp Ottawa's economic development policies, in particular those related to regional development. Underpinning the new economic thinking

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<sup>33</sup>. Ibid.

<sup>34</sup>. Ibid. See also Savoie, *Regional Economic Development*, 1992, chapter 5.

<sup>35</sup>. Ottawa, Department of Finance, *Economic Development for Canada in the 1980s*, November 1981.

was the view that "regional balance was changing as a result of buoyancy in the West, optimism in the East and unprecedented softness in key economic sectors in central Canada.<sup>36</sup> The economic prospects associated with resource-based megaprojects in Atlantic Canada (Sable Island and Hibernia) and the West, at least in part, gave rise to the new thinking. The solution was to encourage a "good" investment climate and market access in the West and East where large investments were bound to take place and to put in place measures to draw resources from declining industries and move them into growth sectors in central Canada.

So DREE beget MSERD and DRIE. Both new departments were established in 1982 with MSERD (Ministry of State for Economic and Regional Development) designed to play a central agency role coordinating line department activities and DRIE (Department of Regional Industrial Expansion) designed to deliver a regional industrial program based on a "development" index.<sup>37</sup> The index established the needs of individual regions, as far down as a single census district, with all regions arranged in four tiers of need. The first tier, which covered 58 percent of the population, covered the most developed regions of the country while the fourth, which included 5 percent of the population, covered the regions with the greatest need (based on level of employment, personal income, and provincial fiscal capacity). The thinking behind this initiative was that the private sector *everywhere* in Canada needed government assistance to locate, to expand or to modernize. MSERD became responsible for the GDAs and quickly began replacing them with a "new and simpler set of agreements with the provinces, involving a wider range of federal departments."<sup>38</sup> The agreements were labelled "Economic and Regional Development Agreements" (ERDAs), but in time came to resemble very closely the GDAs they replaced. The one important difference was a provision that would allow the federal government to deliver directly certain programs and initiatives rather than always having the provincial governments deliver them, as was the case with the GDAs.

During his brief tenure as prime minister, John Turner declared his intention to streamline federal government operations which, in his opinion, had become

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<sup>36</sup>. Ibid.

<sup>37</sup>. Ottawa, DRIE, "Speaking Notes - the Honourable Ed Lumley to the House of Commons on the Industrial and Regional Development Program," 27 June 1983, pp. 1-2.

<sup>38</sup>. Ottawa, Office of the Prime Minister, "Reorganization for Economic Development," (News Release), 12 January 1982.

"too elaborate, too complex, too slow and too expensive."<sup>39</sup> He abolished two central agencies, including MSERD and turned responsibility for the ERDAs over to DRIE.

Brian Mulroney came to office in 1984 determined to "inflict prosperity on Atlantic Canada."<sup>40</sup> Though slow off the mark, the government tried after several months in office to redirect more DRIE funding to slower growth regions. Within a few years, however, it became clear that the government would have to overhaul its regional development policy completely. The four Atlantic premiers, as well as many business groups in the Atlantic region, became extremely vocal in their criticism of Ottawa's regional policy. DRIE was accused of being extremely "bureaucratic" and not sufficiently concerned with the economic difficulties of the Atlantic provinces. In addition, the resource-based megaprojects never materialized in Atlantic Canada and in the West and the "unprecedented softness" in central Canada suddenly disappeared. Indeed, by the mid to late 1980s, the Ontario economy, if anything, was overheating. Atlantic premiers made the case that DRIE, by focusing many of its efforts in central Canada, was exacerbating the "regional disparities" problem. They argued that it was "better to have no federal regional programming at all than to have DRIE [and] DRIE programs favouring central Canada."<sup>41</sup> In any event, Mulroney - as politicians are wont to do - wanted to put his own personal stamp on government policy, particularly on regional development which is a high profile and particularly popular policy field in slow growth regions.

DRIE thus beget three new agencies. In unveiling the Atlantic Canada Opportunities Agency (ACOA), Mulroney declared: "We begin with new money, a new mission and a new opportunity. The Agency will succeed where others have failed."<sup>42</sup> He gave ACOA \$1.05 billion of new money over 5 years and also transferred part of DRIE's budget - about \$1 billion - over 5 years. The newly appointed ministers and deputy ministers of ACOA declared early on that the agency would have "no Ottawa bureaucracy to answer to."<sup>43</sup> They designed a

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<sup>39</sup>. "Trudeau-Pitfield Bureaucracy First Item on Turner's Overhaul," *Globe and Mail*, 2 July 1984, p. 5.

<sup>40</sup>. Quoted in Savoie, *Regional Economic Development*, 1992, p. 98.

<sup>41</sup>. See Donald J. Savoie, *Establishing the Atlantic Canada Opportunities Agency - A report prepared for the Prime Minister* (Ottawa: Office of the Prime Minister, May 1987), p. 20.

<sup>42</sup>. See, among others, "PM Launches New Agency for Atlantic Canada," *Sunday Herald* (Halifax), 7 June 1987, p. 1.

<sup>43</sup>. "Two Maritimers Will Be in Control," *Daily Gleaner* (Fredericton), 8 June 1987, p. 3.

new program labelled ACTION which was essentially a continuation of incentives programs to the private sector first introduced as early as the pre-DREE days. ACOA also took over the ERDA agreements and renamed them Cooperation agreements. They, too, are remarkably similar to earlier agreements, whether the ERDAs or GDAs.

Mulroney's powerful Alberta minister, Don Mazankowski, also saw little prospect in working with DRIE, which was no more popular in the West than in Atlantic Canada. Mazankowski was determined to bring to the national agenda the need to diversify the western economy and pressured the government to announce an ACOA-type agency for western Canada. Several weeks after he had unveiled ACOA, Mulroney went to Edmonton to announce a new Western Diversification (WD) department.<sup>44</sup> This time, he announced that the new department would be allocated \$1.2 billion of new money, as well as responsibility for DRIE's budget in western Canada and the western ERDAs. Like ACOA, WD looked to modify an existing government program to launch its Western Diversification initiative.<sup>45</sup>

On 15 July, 1987, yet another special agency was created to promote economic development - this time in Northern Ontario. The Federal Economic Development for Northern Ontario (FEDNOR) launched three new programs shortly after it was established, all of which were designed to support private sector investment in the region.<sup>46</sup>

A new "national" industry department - the Department of Industry, Science and Technology (DIST) - was established to replace DRIE. DIST would retain regional development responsibilities for Ontario and Quebec and assume "sectoral" responsibility for Canadian industry. The department's focus, much to the delight of many of its senior officials, would become "national" and "sectoral" in scope rather than "regional."

Still, DIST was being asked to assume responsibility for federal regional development programs in Quebec. Ottawa decided to replace *Le Plan de l'Est*, a program dating back to DREE days, but which was scheduled to expire in March 1988, with a new province-wide agreement to develop Quebec's regions. It signed a five-year \$820 million ERDA subsidiary agreement with the Quebec

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<sup>44</sup>. Ottawa, Office of the Prime Minister, Western Diversification Initiative - News Release, 4 August 1987.

<sup>45</sup>. See Savoie, *Regional Economic Development*, 1992, chapter 10.

<sup>46</sup>. Ottawa, Department of Industry, Science and Technology, *The FEDNOR Review*, 1989, p. 6.



government. Ottawa agreed to contribute \$440 million and Quebec \$380 million. With DIST having federal responsibility for the agreement, the funding was increased by an additional \$283 million in 1989. The agreement divides Quebec's regions into two broad categories: the central regions and the peripheral or resource regions. The central regions were awarded a larger share of the funds - \$486 million. The resource regions consist of eastern Quebec (Bas-St-Laurent, Gaspésie), the North Shore, the North-Centre (Lac St-Jean), the western region (Rouyn-Noranda), and the northern region (Abitibi). The central regions cover the rest of Quebec.<sup>47</sup>

By the time the Chrétien government came to power in 1993, regional development had lost its political appeal. Chrétien had made firm commitments to strengthen Ottawa's regional development efforts in one of his five major policy statements in his successful attempt to become leader of the Liberal party. But he quickly lost interest in regional development when he became prime minister in 1993 and never acted on his commitment. Dealing with the country's difficult fiscal situation dominated the government's agenda for several years and one of Chrétien's most important legacy was his program review exercise. The exercise, it will be recalled, eliminated 50,000 positions in the federal government, cut \$30 million in program spending and by 1997 program spending was reduced to 13 percent of GDP, the lowest level since 1951.<sup>48</sup> All areas of government activities were reviewed and regional development programs were certainly no exception. In the case of the Atlantic Canada Opportunities Agency, for example, the program review exercise cut about 40 percent of the agency program budget and made all assistance program to the private sector repayable.<sup>49</sup>

But things changed in the year 2000. The Chrétien government had eliminated the deficit problem and it had to call a general election within 24 months. With public opinion surveys suggesting that the federal government had modest support in Canada, Chrétien went to Halifax on 29 June, 2000 to unveil a new approach to regional development. He gave ACOA \$700 million of new money to be invested in research and development, training and community economic

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<sup>47</sup>. See Ottawa, Department of Industry, Science and Technology, *Canada-Quebec Subsidiary Agreement on the Economic Development of the Regions of Quebec*, 9 June 1988, schedules B, C, and D.

<sup>48</sup>. See, among others, Peter Aucoin and Donald J. Savoie, *Managing Strategic Change* (Ottawa: CCMD, 1998).

<sup>49</sup>. Donald J. Savoie, *Rethinking Canada's Regional Development Policy* (Moncton: Canadian Institute for Research on Regional Development, 1997).

development. However, Chrétien had precious little to say about the role of the provinces in his new approach. He spoke about several new partnerships with the private sector and established a new "Advisory Board" to guide federal government spending in the new economy. The role of the provinces, it appears, would be determined on an ad hoc or on an as needed basis.<sup>50</sup>

### *Evaluating the Alphabet Soup*

Have the various federal government programs described above worked? It is not possible to produce an ironclad answer. In fact, it seems that the answer depends very much on who is asking the question and on who is providing the answer.

The reasons for this are varied. For one thing, federal government spending in regional development is very modest in the general scheme of things. There are a number of forces that invariably have a far greater impact on the health of Canada's regions than federal government regional development efforts. These include economic circumstances in the United States and Ontario, monetary policy, and fiscal policy. Accordingly, it is not possible to isolate regional development spending and make the case that it is directly responsible for new growth or new net jobs.

The goals and objectives of the GDAs, and the ERDAs and the Cooperation agreements were and remain extremely broad and of little benefit even as a checklist against which to assess proposed projects. New Brunswick's GDA did not, for example, prevent DREE from providing assistance for the construction of a marina for local pleasure-boat owners, highway construction, the establishment of a community college, and a new golf course. Such a variety of theoretical and policy frameworks makes it impossible to evaluate the effect of expenditures. Even evaluating the impact of individual federal-provincial agreements is very difficult, if at all possible.

The frequent changes of policy and organizational direction have posed yet another difficulty. Before a thorough assessment of one approach could be initiated, a new one would take its place. Insufficient time had elapsed to determine the effect of a particular program on a given sector. With a new policy announced, officials had little interest in assessing a program that was now history. For this reason alone, we will never know, for example, if the "growth pole" concept ever had much of an impact when it was applied to Atlantic Canada.

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<sup>50</sup>. See Background documents,

In addition, new policies and new approaches have been introduced for a number of reasons, not simply because existing ones were no longer effective. In fact, federal-provincial competition appears to have been largely responsible for at least two of the three major policy reviews. In 1973, the federal government sought to establish closer links with provincial governments by introducing the GDAs. By 1981, Ottawa concluded that it was not getting the credit to which it was entitled and decided to scrap these agreements. Since the principal motive behind two major policy reviews was federal-provincial tension, it may well be more appropriate to assess them from this perspective rather than from one of regional development. Certainly, the 1973 policy review placed the provinces in a favoured position in shaping new regional development initiatives. The 1982 review appears to have made it much more difficult for provinces to do so, with the federal government retaining the option of delivering certain projects directly. The establishment of ACOA, WD, and DIST, meanwhile, appears to have resulted from an urgent desire to deal with a crisis of confidence in DRIE, with strong pressure from the Atlantic region and the West to deal with their economies, which were not rebounding from the recession of the early 1980s, and with a strongly held desire to chart a new course in regional development different from that followed by the Trudeau government. Chrétien's recent announcement also appears to be designed to enable him to put his own stamp on federal government efforts, to establish distance between the Mulroney years and his own time in office, and to win seats in Atlantic Canada in the upcoming general election.

Notwithstanding the above, there have been attempts to evaluate the effect of GDA- and ERDA-sponsored initiatives. The evaluations were incomplete — almost all concluded that more time was required — and were carried out either by federal-provincial committees of officials or by outside consultants.

Consultants and outside critics have also conducted numerous evaluations of regional development programs designed for the private sector. These programs in the past provided cash grants to businesses to locate or expand economic activities, but now provide loan guarantees or low interest loans. Evaluations have led to a variety of conclusions, favourable and unfavourable.

The Economic Council of Canada found that the incrementality of projects under one program to be between 25 and 59 percent and that of jobs between 35 and 68 percent. An investment project is considered incremental if the firm, without assistance, would not have undertaken the project or would have undertaken it outside the designated region. The lower rates, 25 and 35 percent, represent, according to the Council, a very conservative estimate of success. On the whole, the Council found the program beneficial, with a benefit-to-costs ratio of

between 3 and 19 to 1. The Council concluded: "The subsidies seem successful enough to be a paying proposition. The value of the jobs created appears to outweigh the inefficiency involved in locating production inappropriately."<sup>51</sup>

However, incrementality is a controversial issue. The lack of consensus about it may well stem from the difficulty of measuring it reliably. Dan Usher explained the difficulty: "Normally one is taxed or subsidized for doing something regardless of whether one would do it or not in the absence of the tax or subsidy. It is as though the family allowances were restricted to children who would not have been conceived, in its absence, or Crow's Nest Pass rates restricted to grain that would not have been grown if freight rates were higher."<sup>52</sup>

But what about the state of regional disparities in Canada. Have we witnessed progress on this front since Ottawa first began to introduce regional development measures? Again, there is no clear cut answer.

There has been some progress in reducing regional disparities in per capita income during the past forty years. The largest reduction in income disparities in average family disposable income while the least reduction was with respect to earned income per capita. What this may suggest is that federal transfer payments of one kind or another to the slow-growth provinces had a greater impact than measures to promote economic growth.

There are signs, however, that regional development measures may not have worked as well as it was first envisaged. Regional disparities are as persistent today as they always have been in unemployment levels, population growth, and research and development activities and they favour the same provinces, notably the four Atlantic provinces.

### *Some Lessons Learned*

We learned a number of things from forty years of regional development measures in Atlantic Canada. The first is that there is no quick fix or silver bullet. There are reasons why some regions do not grow as quickly as others and the challenges are not easily overcome. Some are historical, others are cultural and still others have to do with the existing urban structure. There are more such factors.

We also learned that politics matters. There are many forces that motivate political leaders to act and some do not always correspond to the requirements of

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<sup>51</sup>. Economic Council of Canada, *Living Together: A Study of Regional Disparities*, Ottawa, 1977, p. 160, 215.

<sup>52</sup>. D. Usher, "Some Questions about RDIA," *Canadian Public Policy* (Fall 1975), p. 560.

proper economic planning. In addition, things that matter a great deal to politicians like visibility are not very relevant to community leaders or to permanent government officials.

We learned that in regional economic development, as in other things, success breeds success, but failure also breeds failure. It is important for government programs to give rise to tangible success stories from which to build momentum.

Notwithstanding the views of neo-conservative economists, market forces can never dictate where people will live. People do develop strong loyalties and attachments to place. Family, friends, institutions, landscapes, climates, a general sense of belonging and of knowing how to behave in a particular society — these exercise a very strong pull on most people. And this pull means that mobility could never be without cost in terms of pain, even if transport were free, and if houses, churches, hospitals, schools, power plants, and so on could be transported along with the people. Many people have a passionate desire to go on living and earning their living where they are; and that desire must be given its proper weight in the calculation of the impact of any policy on the welfare of a particular society. Moreover, most people do not think of "welfare" in terms of nation-states. They may have enough national pride to be pleased when they read that the per capita income of their country has surpassed that of a neighbouring country; but their pleasure in that fact is not likely to be strong if they live in a retarded region. It seems clear that when social welfare is concerned, much smaller spaces than the nation-state must be used as the criterion.

People will push politicians to intervene and in the end the politicians will intervene and launch new measures to promote regional or community economic development. To have any chance of success, the government will need to tailor the effort to local circumstances. Measures that are national in scope require a far different administrative capacity than measures designed for a small, rural community.

The Canadian experience suggests that flexibility in organization and program design has its advantages. What works in one region may not work in another and one organizational model may be particularly well suited for one community but not another (e.g. urban versus rural). But the Canadian experience also suggests that there are important limits to flexibility. One can make a policy or even a program so flexible and open ended that in the end it means very little. As the Canadian experience shows, a program can be so flexible that it actually means very little even as a guide for action. Some Canadian regional programs have been little more than enabling programs simply clearing the way for officials to design and implement virtually any conceivable activity.

Flexibility in regional development efforts comes with a price. While it enables officials to pursue virtually any opportunity, it also means that governments will never know if their efforts are successful. Having a capacity to evaluate ongoing efforts enables governments to adjust their efforts, to learn from past efforts about what works and what does not. It also gives government officials the capacity to explain and sell their efforts to citizens.

What about the substance of the efforts. To be sure, it depends on a region's economic circumstances. But one can never get it wrong by investing in the "people factor," in education, training and research and development. Institution building is also important if only to empower communities and community leaders to plan and to act.

Lastly, we have learned in Canada that it is very important for governments to limit the application of their regional development programs to designated regions. The most important failure of past and present regional development efforts in Canada has been and continues to be the lack of political will to limit their application of the programs to carefully selected regions.

### **Equalizing Provincial Fiscal Capacities**

Canada's Equalization program provides for unconditional transfers from the federal government to the have-not provinces—those with revenue generating capacities below the national average. These transfers raise per capita revenues in recipient provinces to the standard—an average across the so-called five representative provinces (Ontario, Quebec, Manitoba, Saskatchewan, and British Columbia).

In addition, the federal government makes significant cash transfers to the provinces in the form of a block-grant for health, post-secondary education and welfare through the Canada Health and Social Transfer (CHST). Total CHST entitlements by province are equal per capita, based on the combined value of CHST cash and that of a set number of income tax points transferred to the provinces in 1977. Each province's per capita entitlement to CHST cash is computed as a residual—the difference between its per capita total entitlement and the (equalized) value of the transferred tax points. Thus per capita cash transfers embody an element of super-equalization: The (equalized) value of the tax points is equalized up to a top province standard (Ontario) in all provinces; beyond this, the remainder of the cash transfer to provinces may be thought of as an equal per capita transfer. Thus, the distribution of CHST cash further contributes to the equalization goal.

## Conclusion

Trade has indeed played an integral part in Canada's development. One could argue that the Federation was built against the tide. Bucking the north-south forces, Canada has developed on an east-west axis. As McCallum (1995) has demonstrated, the Canada-U.S. border does matter with respect to trade.

Simultaneously, Canada has experienced over the better part of the 20th century, if not longer, a slow but constant trend toward the continentalisation of its economy. Regional cross-border economies are taking strength. East-west trade, though not decreasing, is losing relative importance to north-south trade.

During the second part of the 20<sup>th</sup> century – up until the FTA – Canada had in fact constructed a *golden triangle*, at least from Ontario's perspective. Through fiscal equalisation schemes, Ontario's dollars were sent to the federal government which in turn sent these to less developed and prosperous regions of the country. In turn, these regions' consumers would spend these dollars on goods manufactured in Ontario... thus the *golden triangle*. Today, these equalisation schemes have seen their importance decreased significantly.

The end of this "Golden Triangle" also corresponds to a period where the federal government drastically reduced the relative importance of regional development programs. With the trend towards the relative weakening of east-west links in Canada and the strengthening of regional economies with north-south linkages, what future remains for Canada, a country built against the odds on a foundation contradicting basic regional economic premises?

Additional pressure to limit government intervention in the field of regional development may come from another direction (Gunderson. 1998. 213-214). Several have argued that trade agreements like FTA and NAFTA are likely to complicate the adoption of policies where government intervenes directly or indirectly to support economic development. Some of these policies may indeed be considered unfair subsidies, thus becoming countervailable. Furthermore, pressures will increase on both provincial and the federal government to level the playing field to ensure that existing Canadian businesses are not overly burdened by taxes, regulation, etc. The 1994 Internal Free Trade Agreement, with its elimination of barriers to internal trade is a concrete example of the trend to harmonise policy.

Finally, even if government wanted to generously support regional development efforts – as well as any other expenditure program for that matter – it will have to balance these with the understanding that capital, including human capi-

tal, which becomes much more mobile with trade liberalisation, may exit the country if it is too highly taxed to finance the various expenditure programs.

It would be farfetched to forecast Canada's demise based on these trends. Furthermore, one could arguably predict that the regional balance in Canada will never be the same. The Golden Triangle is broken. The regional solidarity which is still embodied in Canada's Constitution may slowly become a faint memory. More and more, provinces will have to sink or swim by themselves. In that context, as Brown (1998: 295) suggested, trade policy becomes a regional development policy.

Both economic disparity and fiscal disparity are characteristics of the Canadian federation. Perhaps in spite of regional policy, there is some evidence that the degree of economic disparity has lessened over time although it is still significant. For example, in 1996 GDP per capita ranged from a low of 73% of the national average to a high of 140% of the national average.

Policies directed at alleviating fiscal disparity, however, have been more evidently successful. Disparity in own-source revenue generating capacities in 1996/97, ranging from 66% of the national average to 141% of the national average, is substantially reduced by Canada's Equalization program, now ranging from 95% of the national average to 133% of the national average (129% if cash transfers under CHST are taken into account).

Regional disparity was given constitutional recognition in Canada's Constitution Act, 1982. What is significant about this is that it enshrines the policy goal of regional equity—both regional economic equity (equality of opportunity) and regional fiscal equity (equality of access to public services)—as well as policy measures directed at achieving this goal—regional development policy, the use of the federal spending power and fiscal equalization.



## APPENDIX

*TABLE 1: RESULTS OF THE INTERNATIONAL SHIFT-SHARE TECHNIQUE - NATIONAL SHIFT COMPONENT, CANADIAN PROVINCES, 1985-1989 AND 1989-1993 (PERCENTAGE OF TOTAL SHIFT)*

Province and Period	U.S. Exports	NUS Exports	U.S. Imports	NUS Imports	Nat. Dom. D'd Shift
NFLD 85- 89	6.6	5.8	11.5	8.8	111.15
89-93	77.4	0.4	46.4	18.9	137.7
PEI 85-89	5.6	4.8	9.6	7.3	93.0
89-93	37.3	0.2	22.3	8.1	66.4
NS 85-89	7.5	6.5	13.0	9.8	124.9
89-93	42.1	0.2	25.2	9.2	74.9
NB 85-89	5.4	4.7	9.4	7.2	91.0
89-93	48.8	0.2	29.2	10.6	86.8
Qc 85-89	5.8	5.0	10.0	7.6	96.3
89-93	59.5	0.3	35.6	13.0	105.8
ONT 85-89	4.6	4.0	8.0	6.1	77.6
89-93	96.4	0.5	57.7	21.0	171.5
MAN 85-89	8.8	7.6	15.2	11.6	147.0
89-93	71.5	0.4	42.9	15.6	127.1
SASK 85-89	37.2	32.3	64.7	49.2	623.8
89-93	34.0	0.2	20.4	7.4	60.5
ALTA 85-89	-56.7 <sup>53</sup>	-49.2 <sup>2</sup>	-98.5 <sup>2</sup>	-74.9 <sup>2</sup>	-950.5 <sup>2</sup>
89-93	19.1	0.1	11.5	4.2	34.0
BC 85-89	5.0	5.5	8.4	8.0	88.7
89-93	31.8	-0.4	19.6	7.1	55.9

Source: Desjardins. 1997. 215.

<sup>53</sup> Between 1985 and 1989, Alberta's GDP decreased. A negative percentage is thus a positive contribution.

TABLE 2: RESULTS OF THE INTERNATIONAL SHIFT-SHARE TECHNIQUE - INDUSTRIAL-MIX SHIFT COMPONENT, CANADIAN PROVINCES, 1985-1989 AND 1989-1993 (PERCENTAGE OF TOTAL SHIFT)

Province and Period	U.S. Ex-ports	NUS Exports	U.S. Imports	NUS Imports	Nat. Dom. D'd Shift
NFLD 85-89	-1.9	1.6	-9.6	-5.7	-17.3
89-93	-37.1	1.5	-23.7	-6.2	21.7
PEI 85-89	0.8	4.1	-4.8	-5.8	-11.5
89-93	-24.5	1.5	-12.9	-3.2	11.5
NS 85-89	-1.6	0.9	-11.5	-4.7	-7.7
89-93	-14.8	0.7	-11.7	-3.6	-0.5
NB 85-89	-0.2	2.2	-4.6	-5.1	-5.3
89-93	-13.5	-0.5	-11.3	-4.9	-2.5
Qc 85-89	-0.2	0.4	-0.4	3.4	8.4
89-93	-2.5	-0.4	3.2	0.7	3.2
ONT 85-89	2.0	-3.4	1.4	1.4	8.4
89-93	22.1	1.9	19.9	5.7	-5.0
MAN 85-89	-2.3	1.6	-3.2	-3.7	-9.2
89-93	-23.2	1.0	-8.6	-2.6	20.3
SASK 85-89	-15.2	50.4	-14.4	-29.5	-179.8
89-93	-16.8	-1.7	-9.9	-3.2	15.7
ALTA 85-89	38.8 <sup>54</sup>	-39.9 <sup>3</sup>	-6.1 <sup>3</sup>	17.5 <sup>3</sup>	241.9 <sup>3</sup>
89-93	-4.1	-1.1	-4.7	-1.2	5.3
BC 85-89	-0.0	3.0	-0.8	-5.1	-1.7
89-93	-6.3	0.5	-8.3	-2.9	-8.0

Source: Desjardins. 1997. 222.

<sup>54</sup> Between 1985 and 1989, Alberta's GDP decreased. A positive percentage is thus a negative contribution and vice-versa.

*TABLE 3: RESULTS OF THE INTERNATIONAL SHIFT-SHARE TECHNIQUE - REGIONAL SHIFT COMPONENT, CANADIAN PROVINCES, 1985-1989 AND 1989-1993 (PERCENTAGE OF TOTAL)*

Province and Period	U.S. Exports	NUS Exports	Nat. Dom. D'd Shift
NFLD 85-89	21.4	6.7	-29.1
89-93	-70.0	21.5	-19.9
PEI 85-89	-3.0	-6.5	19
89-93	-5.4	-1.4	28.8
NS 85-89	2.5	-3.1	-23.2
89-93	-15.1	-31.3	63.4
NB 85-89	6.8	4.4	-2.2
89-93	-3.1	111.3	-103.9
Qc 85-89	2.1	-9.3	12.1
89-93	-11.1	11.5	-13.8
ONT 85-89	0.3	3.2	20.2
89-93	12.2	31.3	-127.1
MAN 85-89	7.0	6.0	-46.5
89-93	-23.3	6.0	-32.5
SASK 85-89	-69.9	148.3	-457.3
89-93	12.3	8.4	2.1
ALTA 85-89	57.8 <sup>55</sup>	29.3 <sup>4</sup>	666.5 <sup>4</sup>
89-93	10.8	6.2	39.4
BC 85-89	-2.6	-1.9	14.6
89-93	-7.0	11.0	38.0

Source: Desjardins. 1997. 227.

<sup>55</sup> Between 1985 and 1989, Alberta's GDP decreased. A positive percentage is thus a negative contribution.

*TABLE 4: RESULTS OF THE INTERNATIONAL SHIFT-SHARE TECHNIQUE - EXPORT, IMPORT AND DOMESTIC DEMAND, CANADIAN PROVINCES, 1985-1989 AND 1989-1993 (PERCENTAGE OF TOTAL SHIFT)*

Province and Period	Export Shift	Import Shift	Dom. D'd Shift
NFLD 85-89	40.1	-5.0	64.8
89-93	-6.3	-33.3	139.6
PEI 85-89	5.85	-6.4	100.57
89-93	7.72	-14.4	106.7
NS 85-89	12.6	-6.6	94.0
89-93	-18.2	-19.5	137.8
NB 85-89	23.4	-6.9	83.5
89-93	143.2	-23.7	-19.5
Qc 85-89	3.8	-20.5	116.8
89-93	57.3	-52.4	95.1
ONT 85-89	10.73	-16.9	106.1
89-93	164.4	-103.7	39.3
MAN 85-89	28.7	-19.9	91.2
89-93	32.3	-47.1	114.8
SASK 85-89	183.1	-69.9	-13.3
89-93	36.4	-14.7	78.3
ALTA 85-89	-20.0 <sup>56</sup>	162.1 <sup>5</sup>	-42.1 <sup>5</sup>
89-93	31.0	-9.7	78.7
BC 85-89	8.9	-10.5	101.6
89-93	29.6	-15.6	86.0

Source: Desjardins. 1997. 230.

<sup>56</sup> Between 1985 and 1989, Alberta's GDP decreased. A positive percentage is thus a negative contribution and vice-versa.

*TABLE 5: RESULTS OF THE INTERNATIONAL SHIFT-SHARE TECHNIQUE - U.S. TRADE, NON-U.S. TRADE AND DOMESTIC DEMAND, CANADIAN PROVINCES, 1985-1989 AND 1989-1993 (PERCENTAGE OF TOTAL SHIFT)*

Province and Period	U.S. Trade Shift	NUS Trade Shift	Dom. D'd Shift
NFLD 85-89	24.2	11.0	64.8
89-93	-52.4	12.8	139.6
PEI 85-89	-1.5	1.0	100.6
89-93	-2.0	-4.7	106.7
NS 85-89	6.9	-0.9	94.0
89-93	-1.4	-36.4	137.8
NB 85-89	7.2	9.3	83.5
89-93	14.2	105.3	-19.5
Qc 85-89	-1.9	-14.9	116.8
89-93	-2.2	7.1	95.1
ONT 85-89	-2.5	-3.7	106.1
89-93	53.7	6.9	39.3
MAN 85-89	1.5	7.3	91.2
89-93	-9.2	-5.6	114.8
SASK 85-89	-98.1	211.4	-13.3
89-93	19.1	2.6	78.3
ALTA 85-89	144.5 <sup>57</sup>	-2.5 <sup>6</sup>	-42.1 <sup>6</sup>
89-93	19.0	2.3	78.7
BC 85-89	-5.3	3.6	101.6
89-93	7.3	6.8	86.0

Source: Desjardins. 1997. 235.

<sup>57</sup> Between 1985 and 1989, Alberta's GDP decreased. A positive percentage is thus a negative contribution and vice-versa.