

Accountability of federal systems

Factors of Budgetary Performance in Russia and Germany

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Abstract

This work is devoted to the analysis of two federations - Germany and Russia in the period from 1991 to 2016. This research is answering the question why, despite the existing legacy of federative relations with the substantial level of decentralization and accountability with democratic traditions German regions does not show good budgetary performance, whereas in the absence of historical legacy and accountability mechanisms and with the high level of political centralization in Russia, it is possible to create system with the better budgetary performance. The hypothesis of this research was that indeed, the historical heritage and democratic rules increase the level of decentralization and accountability, but this does not necessarily lead to better budgetary performance because of the weak budgetary constraints and incentives. The results of this study approve this hypothesis.

Tested by crisp-set Qualitative Comparative analysis this research shows several important tendencies. Despite of the historical roots, federal legacy and democratic type of regime leading to a greater level of decentralization, budgetary performance is not a direct consequence of such a system. With a relatively high level of decentralization, many of Germany's decentralization mechanisms work towards a worse performance. In particular, a strong level of fiscal decentralization, a lack of transparent budgetary allocation mechanisms (which are mainly related to the type of parliamentary political system), and a large number of equalizing federal transfers together with an uncontrolled regional opportunity to borrow money lead to a worse budgetary performance in that country. On the other hand, a more centralized system with lower level of accountability more often shows the better results in terms of budgetary performance, although some centralization tendencies (primarily political ones) do not contribute to the best level of budgetary indicators. Thus, the main conclusion of this work that hard budget constraints together with transparent responsibilities division allow a higher level of budgetary performance in Russia and Germany. These findings contribute to the literature on political economy of federal systems.

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1. Introduction

Until the German Federal elections of 2017 there was one of the main issue actively discussed in the agenda: the problem of inequality (on discussions in media see: Anheier 2017; Chazan 2017; Wagstyl 2017). It is still of concern among some analysts and researchers to study German's historical legacy in terms of East-West economic differences (on east-west German inequality see: Maseland 2014; Schneider&Castillo 2015; Vogel et al. 2017), while there is relatively new problem that is relevant for the modern Germany, and this is about the North-South economic inequality. This difference is not only about the GDP per person, which is on 5000 euro higher in South, but also about the incredible Landers' debt that is three times bigger in Northern part of the country¹. Even more, this problem is complicated by a special system of interregional equalization, existing in the budgetary policy of Germany. Because of its neighbor Saarland with the most regular and serious debt, Bavaria should solve its financial problems. And if Bavaria can afford it, Berlin, which is located near Bremen (another regular and serious debtor), can hardly cope with such a redistribution.

At same time the political opposite of Germany – Russian Federation – which is toughly criticized because of its authoritarian tendencies and personalists political regime, exists in a serious economic crisis (Payne 2018). After the collapse of oil prices, the Russian resource-oriented economy has undergone great upheavals. Since the introduction of economic sanctions, virtually all of the money stored in the national welfare funds has already been spent (Inozemtsev 2018). To close the current spending, even the savings that were in the Pension Fund of the Russian Federation were taken (Voronova 2018). Although, Despite the deplorable situation with the country's economy, in 2017 Russian regions showed one of the best results in recent years in reducing the deficit and their own debts (Malyutin 2018).

¹ All statistics on German Landers debt is possible to find on the OECD fiscal decentralization database

Indeed, the average index of electoral cycle budgetary performance shows the following results for Russia and Germany:

Table 1: Budgetary performance in Germany and Russia

Germany	Balance of regional budgets ²	Regional debt ³	Russia	Balance of regional budgets	Regional debt
1998	1	1	1999	0,5	0,25
2002	1	1	2003	0,5	0
2005	1	1	2007	0,25	0,25
2009	0,5	0,7	2011	0	0,5
2013	1	0	2016	0	1

It is much more paradoxical given that there is a long tradition of federalism in Germany, while Russia has attempted to build it from scratch quite recently, and then moved into a hybrid type of federal relations with a high level of centralization. Whereas in Germany there is a strong chamber of parliament representing the regions - the Bundesrat, the Russian Federation Council practically does not take any meaningful decisions in the country. Finally, contrary to the classical notions of the benefits of decentralization (see on decentralization efficiency: Barankay&Lockwood 2007; Rubinfeld&Inman 1997; Oates 1999), the budget transfer of authority in Germany is relatively high, but does not show effective results in addressing budgetary performance problems. In Russia, where regions have extremely limited responsibilities and can not earn by their own, it is possible to solve problems of performance even in the situation of the economic crisis in the country.

² Calculated as the deficit or surplus of the consolidated regional budget as a percentage of GDP. Then, through comparison with the indicators of the previous year the categorical value was given: in case when regional debt has increased we estimate it as 1, if decreased – 0. After that, the average indicator for each electoral cycle was calculated. The data source - OECD Fiscal Database for Germany, The Federal Treasury official website for Russia.

³ Calculated as the total debt of the region to all internal and external defaulters as a percentage of GDP. Again, through comparison with the indicators of the previous year the categorical value was given: in case when regional debt has increased we estimate it as 1, if decreased – 0. The data source - OECD Fiscal Database for Germany, The Federal Treasury official website for Russia.

That is why the **research question** arises: why does authoritarian federation without rule of law, historical legacy and budgetary accountability show better budgetary performance (on Russian example), while democratic state with strong and stable institutions of law, high level of decentralization and accountability show worse budgetary performance (on German example)? The main **hypothesis** of this research is the following: while democracy has several advantages from the decentralization perspective and for the decentralized governments, fiscal performance does not show better results under democratic decentralized rule because of the budget incentives design.

1.1. Scientific relevance

The issue of accountability and the credible commitment problem for decentralization processes are fundamental. Usually this is considered as a factor that acts as the watershed between democratic political institutions and authoritarian ones (Weingast 2014). Democracy, which has most adapted its political institutions to a solving of accountability and credible commitment problems, is traditionally considered as the most favorable political regime for the decentralization of political, fiscal or administrative powers. This is due to the higher level of transparency, and also because of the possibility to punish politicians if their actions lead to bad consequences for direct policy recipients (Filippov et al., 2004; Riker, 1964).

In classical literature, it is generally accepted that a democratic political regime is also the most effective in terms of fiscal federalism: because of the multiplicity of accountability mechanisms and the more transparent ways to control and establish the rules of the game, the system works better (Filippov et al., 2004). In the same classical view, the authoritarian federation operates in an entirely different way. Due to the closed and non-transparent nature of system, corruption usually appears as well as the functioning of the system in the interests of the ruling elite (Obydenkova&Swenden, 2012). Whereas a democratic federation is interested in satisfying the interests of citizens who initially want a system that works in better way (Frey&Stutzer, 2004).

Although, some authors show that accountability in the budget process is often not provided by democratic institutions. Moreover, usually the institution of elections leads to the regions behaving "naughtily" by systematic overspending and expecting bailouts from the federal center. That happens because regions know that federal politicians are interested in success at the elections, and also that voters can not accurately identify the culprit of a reduced budget or an unsecured social policy at the local level (Rodden, 2002). This problem called a "double responsibility dilemma" (Rodden, 2006), leads to choosing by regions one side to be accountable for, depending on the institutional design of the federal relations.

One of the brightest examples of such dilemma in work is German federalism. The existing relatively decentralized rules of this federation lead to the fact that the German lands are not accountable to the federal center for budgets. German lands are in a systematically high level of debt and a large budget deficit, refusing, nevertheless, to cut costs (Rodden, 2003).

At the same time, some researchers began to study authoritarian countries and decentralization processes under authoritarian rules. For instance, in Mexico, there was an informal vertical lift for regional politicians, allowing them to exchange regional powers for their own career prospects (Dias-Cayeros, 2006). In China, in contrast, the process of fiscal decentralization turned out to be accountable by replenishing regional budgets in informal subscriptions from local populations or money from local business (Tsai, 2007). In contrast to democracy, deprived of the need to be accountable to voters, the federal center and the regional authorities in autocracies deal with each other in isolation from public pressure or opinion. In this regard, informal institutions often operate that allow the federal center to more effectively govern at the local level as well as showing that the institution of accountability exists in autocracies.

Although, China is not an example of federation, while one of the brightest federal examples of federal states is Russia. In the 1990s, Russian federalism underwent a series of changes that turned the system into a chaotic, fragmented country, close to disintegration. However, now it is a

harmonious centralized system under authoritarian rule and with good budgetary indicators (Bella et. all, 2017).

If the institution of accountability is the defining indicator for the federal states, democracy might meet this requirement but with unexpected outcomes in budgetary performance, and authoritarianism, in contrast, uses informal and formal institutions and makes the system of redistribution of powers between different levels leading to a better performance. That is partly due to the dual responsibility problem – when regional levels need to be accountable for both federal center and electorate. On the other hand, authoritarian state without such a problem has an opportunity of the direct control from the president or central state over the regional levels and governors. The task of this research is to show that although there is no ideal solution to the problems of fiscal accountability, in contrary to the mainstream view, centralization and hard constraints might become one of such factors of better budgetary performance.

1.2.Theoretical framework and Research design

This research is based on the theory of fiscal interests in federal states (see Desai et. all 2003; Hall&VanReenen 2000; Weingast 2009; Weingast 2014). The basis of this approach lies in the theory of rational choice and suggests that there are two lines of interest in federal relations. The budgetary interests of the regions are in the least restricted budget, which does not have hard budgetary constraints, while the federal center has a duty to cover all over-spendings. In turn, the federal center interests are in establishing such rules of the game, in which regions can not spend money uncontrolled but have to be accountable for the federal center.

In this research three main types of such incentives would be analyzed: market, hierarchical and political (Rodden 2003). Under market incentives we understand the rules of the game, in which the regions are directly dependent on their market competitiveness. Usually it means that most of their budget consists of their own revenues, they highly dependent on their credit ratings, there is competition between regional tax rates and so on. Hierarchical incentives undermine the division

of responsibilities among states and federal center, size of federal-regional bureaucracy, formal institutions as parliaments and governments. Finally, political incentives are about political implications of budgetary policies which first and foremost are elections. According to the clearness of responsibilities division for the electorate and some additional formal mechanisms voters could or could not punish or encourage politicians for the regional budgetary performance. Thus, the main hypothesis of this research is the following:

H1: while democracy has several advantages from the decentralization perspective and for the decentralized governments, fiscal performance does not show better results under democratic decentralized rule because of the budget incentives design.

1.3.Case selection and method of analysis

It is worthwhile in this research to concentrate on two cases rather on making statistical analysis for several reasons. First of all, very often democracy is evaluated as better condition for the fiscal performance because of historical legacies so detailed historical description is needed. Secondly, working with comparative analysis is much better suited for regional analysis because of the very large number of observations at the subnational level. Finally, this research could be the first step for further statistical analysis. Finally, significant part of the variables that will be tested in this study have a small variation in time as formal institutional rules. With such a small variation, it is extremely difficult to construct a statistical study, and therefore a Qualitative Comparative Analysis method will be used in this research.

There are several approaches in case selection procedure for comparative research design. In this work *typical-case approach* will be used (Gerring, 2007). According to this type of case-study two most typical cases from two sample are taken. The comparison between them helps to make more general conclusions because of their explanatory significance. Thus, Russia was taken as the most typical authoritarian federation: with centralized tendencies, low accountability level, different types of regions (heterogeneous and homogeneous), and strong presidential power. On the other hand, Germany was taken as the most typical democratic federation, with medium level of

decentralization, relatively stable federative rules, parliamentary system, economically diverse territories and homogeneous population.

1.4.Content description

In the first chapter of this research there is a theoretical description of the field, with definition of analytical terms and concepts of the research. Starting with definitions of federalism and fiscal decentralization this chapter is also supplemented with accountability concept descriptions and theoretical framework of this research. The second chapter is devoted to the methodological details of further analysis and includes case selection reasons, methodological features of comparative analysis, variable operationalization, data sources and description of crisp-set Qualitative Comparative Analysis method. The third chapter is about Russian-Germany comparison from the historical legacies and institutional arrangements perspective. Each country is examined in detail starting with how and why modern federative institutions appeared, ending with modern fiscal systems. At the end of the chapter, there is a comparison between Russia and Germany both for their historical heritage and for the three types of budgetary incentives. The fourth chapter includes empirical analysis of the budgetary performance variables under different political, hierarchical and market conditions with the QCA method. Finally, in the conclusion part there are main findings and results of this research with limitations' description.

2. Theory and concepts

In this chapter the main concepts of this research will be considered from several positions: how they were already observed and used in the existing literature; which of these approaches will be taken as a basis in this study, and also what has already been written on the topic of the research question of this work in the existing literature. Finally, the theoretical framework at the end of the chapter is the basis for further analysis of the cases.

2.1. Typology of federalism and decentralization

Usually, federalism concept associates directly with the idea of democratic representation. In the absence of free elections of local officials, voters do not have the opportunity to implement the feedback mechanism and to express their economic or social preferences and needs. In that case the idea of federation as a mechanism of local representation does not work. In addition to the fact that the institution of free elections is necessary for federalism as a political system (Fillipov et al., 2004; Riker, 1964). Number of empirical studies prove that administrative and fiscal decentralization does not lead to better governance performance, nor does it work as transparent and reliable mechanisms, if there are no fair electoral processes on the local level (Enikolopov & Zhuravskaya 2007). In this study, we will understand by federation the classical definition given by W. Riker: **federation** is a type of constitutional arrangement in which there are at least two levels of power and each of the levels has at least one autonomous responsibility (Riker 1964). According to this definition both Russia and Germany are federal countries.

It is important to remember that redistribution of powers always in the process of bargaining between different levels. Based on the set of responsibilities, most authors distinguish three types of decentralization: fiscal (related to budgets and taxes), political (related to the political power and elections) and administrative one (related to the technical implementation of any public services) (see on decentralization types: Bednar 2009; Falleti 2010; Rodden 2004; Treisman 1999).

The most explored type of decentralization is fiscal one. Transferring money to the lower levels sets the rest of the federal rules - it determines the chances of subnational units on autonomy from

the center, denotes the discretion of actions and partly sets the level of prosperity of the region (Falleti 2010). Owning its source of income creates market conditions for local territorial units, and on the other hand, makes them more demanding and independent from the center (Rodden 2004). That is why center, disinterested in the excessive autonomy of the regions, prefers to receive all revenues by itself later giving transfers to the regions for specific needs (it is usually the case when political regime is centralized). A good example of this kind of centralization could be Russia in the early 2000s - a number of taxes were transferred from regional to federal center revenues, playing a redistributive role and creating a division on donor regions and recipient regions (Starodubtsev 2018). After that the system began to operate in the logic of financial equalization, and the economic well-being of the regions became correlated with the political interests of the federal center.

Political decentralization is no less important - in fact it is the main indicator of the democratic nature of the federation. The huge increase in the percentage of elected politicians at local levels around the world by the early 2000s is considered as indicator of democratization of most federations (Rodden 2004). Political decentralization is more difficult to measure - referring only to the normative criteria one can not always catch the real system of political governance and miss informal institutions and practices within political elites. Nevertheless, the ability of subnational units to represent their interests at the federal level is the brightest indicator of the effective functioning of federalism and one of its main tasks (Riker 1964).

Finally, administrative decentralization very rarely becomes an object of research on federations. Some important studies in the field of decentralization explore only political and fiscal responsibilities, putting administrative beyond the research question and not including them in the classification (for example see Falleti 2010 and Treisman 1999). There is a simple explanation for that - administrative decentralization is difficult to measure. It is extremely difficult to distinguish importance of technical powers and highlight the most and least significant ones. Nevertheless, for some researchers, administrative decentralization goes hand in hand with the fiscal (Falleti 2010).

This intersection is not accidental - in a situation of lack of money, but with many technical functions, the region may be politically immobilized and heavily dependent on the center transfers allocation.

In this research we will focus predominantly on the fiscal decentralization and fiscal rules. Although political institutions and structure, as well as administrative functions would be important for the descriptive analysis of the federal systems and also as independent variables for QCA analysis. More detailed description of their operationalization could be found in Chapter 3.

2.2. Concepts of accountability

The concept of accountability in political science traditionally links democracy with a range of political institutions that provides citizens better control over the elected politicians. Although there are dozens definitions of this concept. We could put them in three main operationalization types: accountability as effectiveness; accountability as transparency and accountability as responsibility. All these types might intercept each other in one or another way, but we would try to distinguish them for getting a clear understanding of the research subject.

Accountability in terms of effectiveness is a common way of operationalization in the public policy field (Romzek&Ingraham, 2000). Usually this approach undermines credible commitment problem and agent-principle relationships. In terms of efficiency, there is a goal of those who gives any orders to get the result, which is as close to principals' expectations as possible. Agents could use the privilege of being more informed to rise their efficiency in dealing with the tasks, or in their own interests – for instance by cheating the principal (Laffont&Martimort, 2009). However, there is a debate, whether cheating on principal is always against efficiency. If efficiency is only about implementing principals' tasks then asymmetry of information indeed leads to a worse outcome. But if efficiency is about the “final outcome”– then the lower control over agents and also their possibility to decide the way of behaving by themselves could lead to a higher effectiveness.

On the other hand, in some studies accountability understands in terms of transparency (Fox, 2007). This approach is dealing only with understanding of effectiveness in terms of solving a problem of information asymmetry and credible commitment dilemma. Thus, in case when principal could fully share the information with agents, or when principle could get an information about all agents' decisions – then it is possible to say that this system of decision-making is accountable.

Finally, accountability might be understood in a more complicated way, as a mechanism which is closely related to the notion of responsibility. Obviously, accountability forms a two-way communication between the two actors, in which one actor monitors and controls, and the other - fulfils its obligations. This logic has a downside - accountability is impossible without the appearance of obligations and responsibilities of one actor to another. In this case, the question arises: is this responsibility one-sided? In other words, if there are obligations on both sides - does this mean that responsibility to be accountable lies on both of them?

Most of the literature responds negatively on this question. For example, in democracies politicians should be accountable to their constituents: they must carry out their election programs and be responsible for their actions to the people. Responsibility in this case means that the voter has opportunity to remove politicians from the office in case when they did not fulfill their obligations or performed them badly. And although both sides have obligations (politicians have to do their work and voters have to go to the elections), responsibility implies that one side is responsible to another, and that one side is accountable to another. We can say that voters also have a responsibility - after making a bad choice, they doom themselves to bad governance. However, this responsibility is not between the two sides, but for voters themselves. Therefore, in democracies both sides have obligations, while only politicians are responsible to people and must be also accountable to them.

However, how to more clearly distinguish the notion of accountability and the notion of responsibility? In fact, accountability implies a more complex process, including responsibility, but not limited to it. *Accountability implies a certain system of rewards and punishments in the case when actor performs well or fails to fulfill its obligations, which could be used by one side over another in order to achieve higher level of accountability between them.* In other words, we can say that accountability *include responsibility, but also imply some system of control over the agent.* In terms of budgets and fiscal relations accountability is reflected through budgetary performance of the state.

The next question that arises about the system of accountability in political processes is the question of who for whom and to what extent is accountable. For example, is the entire state apparatus accountable to the electorate? What about those officials or politicians who are not directly elected by the people, but, for example, are appointed by other politicians? In most political systems, these issues are addressed individually through the establishment of certain institutional rules. The system becomes more complex when it is not about direct accountability in a two-tiered coordinate system, but when the political system becomes multilevel. And then, the question of the processes of accountability becomes especially important.

2.3.Accountability in the multilevel governance

The existence of several levels of government creates problems with accountability, among which the most important one is the problem of choice: whom it is more worthwhile to be accountable for? In case of weak institutional rules, the possibility of low level of accountability between federal center and region rises up. On contrary, authoritarian states show that accountability between two levels is possible because of absence of the “third” player – electorate. According to some articles, the level of accountability positively correlates with the level of governmental performance or with the level of state’s services (Schmitter, 2007). Although, such cases as China shows that accountability without democracy is possible (Tsai, 2007), but this is accountability of another type, namely as informal accountability.

What is a big difference between accountability in democracies and accountability in autocracies?

Obviously, the main one is about elections. Authoritarian states do not have an obligation to care about citizens' opinion. Moreover, the recent autocracies show that there is a so-called "selectorate" or a specific target group of people who are the key autocrat's supporters (Besley&Kudamatsu, 2007). Even without election authoritarian leader needs support and defense – at least from the mass protest and the possibility of being overthrown. The core interests of these supporters are extremely significant for autocrat. In case of ignoring these interests – as democratically elected officials could be not re-elected, authoritarian leader could be overthrown.

Another important point is the existence of informal accountability. It is mostly typical for autocracies (Tsai, 2007; p. 11-13) and usually means that different parts of government have stable procedures which are not described in official documents and laws, but strongly affect political processes in the state. In case of federal state it might be an existence of some informal meetings between authorities or conflicts within the ruling elite. One of the brightest example of such institution might be ethnically diverse regions in Russia – because of the conflict possibility it is always more preferably for the federal center to give preferences to these regions (Ross, 2010). Usually these regions are full of money and financial resources but face lack of political or cultural autonomy.

So we can represent accountability in regimes in the following table:

Table 2: Types of accountability in different regimes

	Subject of accountability	Nature
Democracy	Accountability for electorate	Accountability according to the formal rules (laws and Constitution)
Autocracy	Accountability for selectorate	Informal accountability

Accountability in different regimes might be explored from the perspective of relationships between federal center and regions. Although, is it always the case, that we can distinguish who is

responsible for what in the federation or to find out the subject of accountability? For instance, Cutler (2004) shows that this is not always the case. The author introduces the concept of "de jure" and "de facto" side of the policies being pursued. Using the example of a survey in two Canadian provinces, the author shows that two factors are important: whether there is an intra-government conflict, and how well-known the policy was among the electorate. "De jure" conflicts or distribution of responsibilities between levels of responsibility are generally more understandable for voters. However, in practice, there is often a "de facto" distribution of powers, which makes such assessments much more difficult. For instance, the general decline in economic development is often de jure attributed to national politics. However, de facto it may turn out that this is partly due to the irresponsible behavior of the region in re-spending budget funds and poor domestic economic policies. De facto, it's not the federal center that is to blame, but if this conflict does not reach the level of wide discussion in the media - citizens are not inclined to independently understand these issues, and therefore they will blame the federal center of the current economic situation.

Another important issue in this topic raised in the late 1990s and early 2000s. It was an idea of the effectiveness of decentralization from a position of better control by the population. In other words, the residence of the region can closely monitor the behavior of officials on the local level, unlike the national officials (Braun & Grote 2002). In addition, many studies have noted an increase in political participation in countries where there is a high level of decentralization: knowing that there is room for real influence on the politics and socio-economic situation of their territory, people are more likely to participate in politics (Crook 2003). On the other hand, some authors point out that the issue of transparency and reducing corruption in decentralized systems remains controversial. In fact, by shifting budget revenues to local levels, it is possible to provoke the merging of local business elites with politicians and the formation of a rent-oriented subnational political system. Moreover, such a form of governance can create opportunities for the formation of authoritarian or deeply corrupt regimes at the regional level (Azfar et al., 2004).

Thus, the question whether multilevel government tends to be more or less clear and transparent about the responsibilities division remains to be unanswered. Over the years a concept of “dual responsibility dilemma” coming from political economy studies became one of the most common-used in this field (Rodden 2011). The idea of this concept is in explaining why strict budget constraints are needed when there are several levels of government. Firstly, lower levels have faced a difficult choice; to be re-elected or to be loyal to the higher level of government. In this case loyalty means the direct implementation of the federal decisions. On practice it means no overspending of money, correct implementations of federal laws and orders, cooperation with other levels and the center itself. Although, as we can see from the literature, lower levels have plenty of opportunities to “cheat” on the federal center because of the unclear responsibilities division and also because to be re-elected sometimes is more attractive for the regional politicians, than the idea of cooperation and loyalty to federal center.

That is why several questions arises. The first one is how to push regions for cooperation with federal center? The second is how to provide such rules of the game that would allowed regions not only to cooperate, but also to have opportunity of living their own life with elections and self-policymaking on their territory. Possibly, the only case when loyalty becomes more attractive is when federal center sets the appropriate rules of games and solve the credible commitment problem. In terms of budgets it means appropriate budget constraints.

2.4.Fiscal interests approach

There are several approaches to how to analyze intergovernmental fiscal relations. The first involves analyzing of formal institutions in their pure form - how and what the region or federal center can do specifically, based on the formal powers that they have (Oates 1972). This approach has an important research advantage – it is enough to look at the legislation on federal relations to make the conclusions. However, there is a significant disadvantage, which is solved by a new generation approach. This drawback lies in the fact that behind the formal rules, many other decisions and actions of different levels that have occurred are not also visible and not prescribed

in laws. Although, the specific consequences for such actions are created by particular sets of institutions, that in logic of rational choice behavior lead to incentives and motivations of the different levels (Pöschl&Weingast 2015). This approach called fiscal interest approach is extremely useful to show the incentives that indeed establish rules of the game.

Different levels of fiscal decentralization have different consequences: for example, decentralization of taxes leads to the fact that regional levels become more responsible towards voters residing on their territory (Rodden, 2003). This is because the main sources of income fall on the population, and there is no way to rely on federal transfers. Secondly, the importance of creating the appropriate design of intergovernmental transfers is of great importance. For example, if it is tied to the region's income, it is much likely to be a good motivator for the subnational level to increase its revenues. Moreover, if the federal center allows the region to leave all the surpluses at the subnational level, rather than to return them on the level of federal center - this again will serve as a good motivator for the region to earn more (Pöschl&Weingast 2013).

There are also soft and hard budget constraints that about a huge importance in creating incentives for different levels. Obviously, there is a certain bargaining between the federal center and the regions, in which the regions would like the largest and most uncontrolled budget that could be spent, and there would be no sanctions for debts. The federal center, in contrast, needs the most effective way of spending money by regions.

The design of fiscal system, as well as the way of money distribution between different levels might be good signals for two things: first, to what extent regions have their autonomy in decision-making (or in other words, how much do they have their own money in order to implement their own policies) and second, what ways of punishments or control could be used by federal center in order to prevent lower levels from cheating (Pöschl & Weingast 2015).

Why is this cheating problem important at all? In practice, when regions are overspending or systematically borrowing money from the federal center there is a choice the federal center also

faced. As far as federal politicians are also elected by the people living on the local levels – it is also in the federal interests to gain a good economic results not only on the level of the whole country, but also on the local levels. Moreover, the quality of local politicians' performance is extremely important for those from the federal level because of “blurred” responsibilities. If electorate is not very well aware of the way responsibilities divided – then sometimes it is worthwhile just to rescue regions from the default or economic crisis by federal transfers or debts forgiveness than to lose federal elections. So, in case when federal center does not establish effective rules, the whole system works incredibly inefficient systematically facing the principal-agent problem.

Although, the whole system is even more complicated. For instance, there are different degrees to which regions could be dependent on the federal center transfers. Moreover, different types of taxes collecting by all levels are also creating different incentives for the whole system (Moore 2007). In other words, we can not use dichotomous ways of measurement and should also keep in mind the variety of rules using in establishing of fiscal federalism. The same is about budget constraints – there are plenty of ways federal government could set up rules to prevent regions or localities from the violation of established arrangements.

However, the number of instruments that could be used in building the fiscal system in federation is limited. According to Rodden (2006) there are two major ways of federal-regional cooperation: 1) when federal center is controlling both taxes and bailouts 2) when these responsibilities are divided between center and regions with preponderance of subnational units. The author also claims that usually it is enough to see that regions have sufficient amount of control over the taxation procedure. Usually it is a good signal that they have an opportunity to take bailouts and also to repay them. Rodden puts the mechanism of federal-regional fiscal relationships in the following way: when there is an economic crisis on the level of the region, it decides and evaluate whether the federal center is commit not to help with the bailouts or loans in the future. If the federal center can commit, then the region implements politically unpleasant policy to follow fiscal

discipline. In other way the region might just borrow money from the federal center to plug the holes in the subnational budget (while it was possible to avoid it).

Rodden (2002) also tested several types of fiscal balances between different levels: fiscal indiscipline (high vertical fiscal imbalance and high subnational borrow autonomy), fiscal restraint imposed by voters and creditors (low vertical fiscal imbalance and high subnational borrow autonomy) and fiscal restraint imposed by central government (low subnational borrow autonomy but all ranges of vertical fiscal imbalance). By the vertical fiscal imbalance he understood the relation between federal transfers and total subnational revenue, and by subnational borrow autonomy – how likely is for subnational level to get a bailout either from the federal center or from private sources (Rodden 2002; p.672). The author makes a conclusion: when both high level of subnational borrowing autonomy and vertical fiscal imbalance appear – it is much more likely that subnational units would prefer to overspend and then plug their overspendings with federal transfers and bailouts. That is how weak budget constraints lead to a worse level of budgetary performance in terms of debt and imbalanced budgets of the regions.

Two years later after that work Rodden (2004) wrote a chapter about different types of fiscal incentives on the German example, that would be the main theory of this research. He distinguished three types of incentives: political, hierarchical and market. The first one, political, refers to the problem that was already discussed in the part about accountability: to which extent regional government is accountable for the electorate depends on the formal rules and their clearness for voters. Hierarchical incentives are also determined by the formal rules, but they are more about the distribution of authorities between different levels, political institutions that are responsible for the decision-making and the extent to which regional levels could participate in the federal agenda. Finally, market incentives are about the openness of regional economy, its competitiveness for the investments and higher revenues and the level of regulation. A more detailed description of the specific mechanisms that can be an incentive for the regions lies in the budget constraints and rules of the game created by the federation.

2.5.Budget constraints and different types of regulation of fiscal behavior

It is possible to divide all institutions, that possibly influence the budgetary performance in federation on two types: political and budgetary. Both political institutions and budget constraints according to the fiscal interest approach influence the incentives of the regions to be accountable for the federal center.

As a rule, it is believed that soft budget constraints are the main problem for creating the proper incentives for the regions, because it is often not clear how they will affect their behavior (Qian&Roland 1998). One way to make regions more "obedient" is to increase the opportunities for competition between subnational units. Such competition can be achieved due to economic attractiveness and freedom of movement between territories (labor migration, for example). However, unlimited possibilities of regions to borrow money on the one hand, can increase the opportunities for competition, but on the other - they make regions systematically fiscally undisciplined. Therefore, such responsibilities should have their limitations.

Another way to make soft budget constraints more strict is to create conditions for monetarist centralization, but fiscal decentralization. In other words, not to repeat the case of Scotland, which has its own money, other than British, but to preserve the monopoly of the federal center for printing money. At the same time, it is possible to allow regions to collect taxes independently and spend them on the needs of providing public goods.

The number of intergovernmental transfers, as well as the rules by which they are distributed, play an important role either. In the case when the regional budget receives huge federal transfers, it is likely that it will create incentives for the region to re-spend money and remain in a systematic budget deficit, since the federal center will be able to solve this problems (Rodden et. all, 2003). Much more effective and useful are the transfers that are sent to the region in the case of good budgetary performance.

Finally, it is very important to distinguish that in authoritarian and democratic institutions there might be different systems of relations between the federal center and regional authorities. For example, poor budgetary results in the case of Russia can lead to poor results for a regional governor, since it is the president who is responsible for appointing and dismissing governors. One of the reasons for dismissal may be a "loss of confidence" – and this rule becomes an option for those regions in which systematically bad budget indicators occur (Starodubtsev, 2018). On the other hand, politically potentially dangerous regions play an important role in economic distribution. The president prefers to sign decrees on transferring additional funds to regions with an ethnically heterogeneous population that can potentially be politically dangerous (Starodubtsev, 2018). In case of democratic political regimes it works in another way – as far as electorate, but not the federal politicians themselves are responsible for the elections, it is much more likely, that regions could behave in favor of the interests of the electorate, and not the federal center.

Then, how political institutions influence different types on incentives? The question of whether structural political factors affect the clearness of responsibility distribution was generally considered in the article of Powell and Whitten (1993). They checked whether the factor of presence of bicameral parliament or the existence of a federal structure in the state are significant in the voting for incumbents. Their hypothesis was that in the case when responsibility is "blurred" - so there are several potential actors, that could influence the current economic situation in the country - voters can not distinguish which of the levels is to blame for the economic "loss". Therefore, the effect of the economic indicators (inflation, unemployment and economic growth) on voting will be less when additional factors of the federal structure appear.

What factors included in the federal structure can affect the "non-punishment" of incumbents and signal about the unclearness of responsibility division? The first factor is a bicameral parliament with two strong chambers. The authors provide an example of the US, Australia and Germany and show that they often meet a situation in which the dominant party in the lower and upper chamber of parliament are different. In the case when the upper house has legislative powers, the question

arises: how can a voter clearly assess which party is responsible for different economic decisions?

As for other variables related to the federal structure, the authors noted the vague delineation of legislative committees among party members, as well as coalition governments. In general, it can be said that the complication of the political system - that is, the creation of a multi-level system with many players - makes the accountability for political or economic performance less transparent for the voter.

Rodden, on the example of his work with four federations (Argentina, Canada, Germany and the United States) and panel data comes to several conclusions on the question of responsibilities transparency. The first is that voters really can not distinguish which level is favored for any policies carried out on the local level. Rodden made an assumption that voters do not consider local elections as significant, preferring national elections that really play a role. The author also assumed that voters very badly distinguish levels of responsibility and are inclined to punish all levels for a poor economic performance. Thus, the author shows on the statistical analysis that governors are rather hostages of national economic indicators, rather than independent players.

However, there are other factors that affect regional elections in federations. So, for example, if the governor at the regional level has the same party affiliation as the president or prime minister, all the successes in the national economy have a more positive effect on his chance to be re-elected. Moreover, in case when the regional government is formed by the same party as in the federal government, this party at the regional level will be punished for any deterioration in the national economic indicators. In order to check whether this phenomenon is a consequence of a different level of decentralization, Rodden included in the analysis the level of party nationalization and found that even in the most decentralized cases, voters confuse regional and federal politicians by their responsibilities. In addition, Rodden confirms that incumbents are most often punished in any case, and, for example, in Argentina only the opposition governor has the opportunity to get electoral benefits for good national economic indicators.

3. Methodological framework

Since the research question of this project works with three broad concepts – budgetary accountability, fiscal incentives and budgetary performance – it is extremely important to operationalize them correctly and not to lose significant meanings through narrowing down the variables. In the previous chapters we have already discussed the way of operationalizing budgetary accountability concepts or the response variable of this research as well as different types of fiscal incentives. In the following chapter in addition to operationalization of variables, data sources, comparative methodological approach and QCA as a method for analysis will be discussed.

3.1.Comparative analysis: from methodology to QCA

A comparative analysis of the two countries is a frequent approach in political science. Typically, the researcher chooses between two strategies: the most similar cases with the most different outcomes or the most different cases with the most similar outcomes (Gerring, 2006). However, the much less typical approach that will be used in this study is the selection of one case from two samples, which will be fundamentally different but are quite typical representatives of their samples (Gerring 2006; Beach&Pedersen 2016). To be more precise, this study takes one typical case of an authoritarian federation with centralized rules of the game and relatively low indicators of budgetary accountability (Russia) and one typical case of a democratic federation with decentralized rules of the game and relatively good indicators of budgetary accountability (Germany). The logic of this approach is in the drawing a more general conclusions on the basis of typical representatives of the observation group. In addition, a detailed examination of the two opposite cases will help to see all the features and differences between them that determine the outcome of interest to us.

The period of analysis in this research is 1991-2016 with the exceptions of periods that are missed from the databases. The unit of analysis is an average index in one electoral cycle. This approach is the most appropriate one due to the extremely low variance of all political indicators.

As far as there are only 10 observations (five for each country) there is no possibility to use statistics. Moreover, this data is panel-based and divide all observations in two groups according to countries division. That is why the Qualitative Comparative Analysis (QCA) method would be the most appropriate one: this technique by using of Boolean algebra calculates the most possible outcome from the set of predictors.

There are several advantages to work with this method of analysis for our observations. First, it allows to work with panel data and to put all available observations into groups. It is possible not only to distinguish all observations by country (which is the most obvious strategy for our sample), but also to divide them by electoral cycles. Secondly, it works with a small number of variables and has several limitations: there should be no more than 30 cases (on average), and the number of independent variables (or predictors) should not exceed the number of observations (Schneider&Wagemann, 2012). Finally, this method works well with categorical or dummy variables: since most of variables in this research were coded exactly in that way (with values of 1 or 0) - this method is again the most appropriate one. For all these indicators, QCA perfectly suits to our observations.

3.2. Variables definitions and operationalization

As we defined in the theoretical chapter, we understand under accountability system “*a certain system of rewards and punishments in the case when actor performs or fails to fulfill its obligations, which could be used by one side over another in order to achieve higher level of accountability between them*”. In terms of fiscal accountability this understanding means a system of rewards and punishments in federal fiscal relations. But then the classic problem of measurement arises: how to measure the implications of such accountability system?

There are several approaches that are directly and indirectly reflect implications of fiscal system that is accountable or not. The first one is in measuring budgetary performance, whether there are systematic overspendings of the regional budgets with the rising of this indicator or not. The second one measures accountability through public debt of regions in percentage of GDP and, again, shows whether there is an increase through time and systematic character of debt. In this research we will use both approaches and test two types of dependent variable: budgetary performance and regional public debt. The budgetary performance indicator, as well as the indicator of debt, are only important in longitude analysis, so in case when regions overspend systematically (more than two times in a row) or rising its public debt through years – we evaluate it as bad budgetary performance.

As independent variables three types of incentive will be taken: horizontal, political and market. In horizontal type of incentives (that is about formal division of responsibilities between different levels) following variables will be included: strong or weak chamber of federal parliament that represents regional interests (1 – strong, 0 – weak); administrative decentralization (1 – yes, 0 – no), fiscal decentralization (1 – yes, 0 – no), political decentralization (1-yes, 0 -no), presidential or parliamentary system (1 – presidential, 0 – parliamentary). In political type of incentives (that is about whether there are clear fiscal rules that help voters to punish or reward politicians) we will evaluate, according to the descriptive analysis, whether regional politicians are politically accountable because of the bad fiscal performance for their voters. Finally, in market type of incentives we include several variables: tax autonomy (1 – high, 0 -low), borrow autonomy (1 – high, 0 - low) and amount of federal transfers (1 – high, 0 -low). Again, all these variables are interesting only through the time, that is why not the particular numbers, but differences in indicators within years will be calculated.

3.3.Databases

For finding the level of borrow autonomy as well as federal transfers, regional budgetary performance and regional debts the OECD Fiscal Decentralization Database that maintains

statistics on indices of tax independence, intergovernmental grants, expenditures of all levels, incomes of all levels, debts of all levels and special types of taxes for each level (federal, regional, local) for the period from 1965 to 2015 would be used. Although, this database contains the information about German case, but not about Russia. For Russian case it is worthwhile to work with the national databases directly: The Federal Treasury official website is the best source to find all the information about the regions. Although for the 1991-1999 time period the information is missed. Similar problem is with German budgetary reports – part of the information is missed, that is why the period until 2013 year is taken. To calculate the level of tax autonomy it is possible to use the formula “ $(\text{Regional taxes} / \text{Regional revenues}) * 100 = \text{fiscal autonomy}$ ” (Sorens, 2010). To calculate the tax autonomy it is useful just to use comparative approach where not the real numbers are important, but their changes in relation to the previous year. It means that we are not going to compare overall level of tax freedom of each country: in opposite, all calculations would be made according to the initial position of our cases. Measurement of federal transfers amount would follow the same logic as well as measurement of regional debts.

To calculate borrowing autonomy the more complicated index would be taken. There is Regional Authority Index⁴ created with support of European Commission which measures the level of borrowing autonomy on the 4-levels scale: “the zero level is in case when subnational levels have no possibilities of borrowing, the first level for those that might borrow but with higher-level authorization, the second level for local authorities that could borrow without higher level authorization, and the last one for those that could borrow without any restrictions”⁵. For both Russia and Germany the data is available.

The following chapter on Russian-Germany comparison with detailed descriptive analysis and literature review will be used in order to define levels of decentralization, the real political power

⁴ Hooghe, Liesbet, Gary Marks, Arjan H. Schakel, Sandra Chapman Osterkatz, Sara Niedzwiecki, Sarah Shair-Rosenfield (2016). *Measuring Regional Authority. A Postfunctionalist Theory of Governance*, Volume I. Oxford: Oxford University Press

⁵ Ibid

of parliamentary chambers representing regional interests and also the clearness of fiscal rules for the voters. Finally, Presidential Power database will be used to evaluate whether the country is under presidential or parliamentary rule.

The final table of variables with their definitions and operationalization could be found below:

Table 3: Variables definitions, operationalization and data sources

Variable name	Definition	How to measure	Data source
Budgetary accountability (concept)	A certain set of rewards and punishments in the fiscal federal system when actor performs or fails to fulfill its obligations, which could be used by one side over another in order to achieve higher level of accountability between them	-	-
Regional debts (dependent variable)	The total debt of the region to all internal and external defaulters as a percentage of GDP	Through comparison with the indicators of the previous year: in case when regional debt has increased we estimate it as 1, if decreased - 0	OECD Fiscal Database for Germany, The Federal Treasury official website for Russia
Budgetary performance (dependent variable)	The deficit or surplus of the consolidated regional budget as a percentage of GDP	Through comparison with the indicators of the previous year: in case when the deficit ratio has increased we estimate it as 1, if decreased - 0	OECD Fiscal Database for Germany, The Federal Treasury official website for Russia
Political decentralization (independent variable)	The transfer to the regional level of political authority responsibilities of free election of its own head of the region, or parliament or government	1 if there is political decentralization and 0 if there is not.	Through literature review (see Chapter 4)
Fiscal decentralization (independent variable)	Transfer to the regional level of authority responsibilities to establish and collect	1 if there is fiscal decentralization and 0 if there is not.	Through literature review (see Chapter 4)

	taxes, self-earning and expenditure of funds		
Administrative Decentralization (independent variable)	Transfer to the regional level of authority responsibilities for the implementation of laws established by the federal level	1 if there is administrative decentralization and 0 if there is not.	Through literature review (see Chapter 4)
Borrowing autonomy (independent variable)	The amount of responsibilities of region to borrow money from internal and external funds	We evaluate it as 0 in case when subnational levels have no possibilities of borrowing or might borrow but with higher-level authorization, and as 1 when local authorities could borrow without higher level authorization or when they could borrow without any restrictions.	European Commission Regional Authority Index
Federal transfers (independent variable)	The amount of direct federal transfers to the regions as percentage of overall regional revenues	(Federal transfers/overall regional revenues)*100, 1 if increasing during the years, 0 if decreasing	OECD Fiscal Database for Germany, The Federal Treasury official website for Russia
Tax autonomy (independent variable)	The ratio of the regional taxes to the regional revenues	(Regional taxes/Regional revenues)*100=fiscal autonomy, 1 if increasing during the years, 0 if decreasing	OECD Fiscal Database for Germany, The Federal Treasury official website for Russia
Political system (independent variable)	Type of political system reflecting through who appoints the executive power: voters choose it (presidency), or it is elected by the parliament.	Through the analysis of the legislation, 1 if parliamentary and 0 if presidential	Presidential Power Database
Parliamentary power (independent variable)	The amount if responsibilities of Federal parliament chamber, representing regional interests	1 if there is strong representation of regions in the federal parliament and 0 if there is not	Through literature review (see Chapter 4)

Fiscal responsibility clearness (independent variable)	How much voters can evaluate what level of authority is responsible for the budgetary performance of the region. Typically expressed in the election results.	1 if there are clear rules for voters, and 0 if they are not	Through literature review (see Chapter 4)
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4. Russian-Germany comparison: historical legacy and recent fiscal rules

The following chapter is the detailed description of two cases: Russian federalism without strong or democratic historical legacy, and German federalism with a serious historical heritage. After the historical description there is an observation of recent institutional arrangements in two federations from the budgetary rules perspective. The last part compares these two systems from two sides: historical legacy with process of institutional building and recent fiscal incentives that exist according to the formal rules in two different political regimes.

4.1. Federal republic of Germany: historical heritage

To the moment of German reunification in 1991, the idea of federalism building looked like horizontal model, in which the main legislative responsibilities lie on the national level, while executive and administrative powers stay with the regional levels or Landers (Jeffery&Savigear, 1991). The basic logic of the created structure was the horizontal relationships, according to which federal center is only responsible for the main legislative framework, while other levels are implementing the real everyday policies.

What were the roots of such redistribution of powers? First of all, the beginning of German federalism is quite differ from the “classic” federalist’s approach according to which large heterogeneous countries with ethnic diversity among divided territories decide to establish constitutional rules of state according to which the federal structure established. Germany is not such a classic example at all – it is relatively small country with more or less ethnically homogeneous population. Although, the roots of German federalization begin in the XIX century with the political unification (Jeffery&Savigear, 1991). Until the end of the century, Germany was just a composition of separated territories with diverse political power, different importance and various size – from the large territories to just cities as Hamburg (Jeffery&Savigear, 1991). The level of significance of each territory was strongly connected with the resources and also with the

«foreign policy», or in other words, to what extent each territory was ready for possible external conflicts and interventions.

But there was one distinguishing feature of the German so-called “territorial politics” that was very typical for Germany but extremely unusual for many other European countries in the XVIII-XIX century. There was no single center, no main body that ruled the entire territory of the state. However, the multiple centers were in cooperation and coordination together with each other, with the different weights, but without one single ruler. Of course, to the end of the XIX century it became obvious that Berlin is now the economical center of the country, that is how the more or less modern vision of the state implemented in German case. Although, this central-oriented model worked only until the end of the Second World War, after which the territorial division and establishing a formal model took time.

Turning back to the XIX century, political and bureaucratic institutions were adjusted to gradual centralization in Germany (Ziblatt, 2006). However, it is important not to confuse centralization with unitarization - Germany remained in federal logic regardless of nationalist movements and the formation of a policy of unity. Cultural features of the lands remained in their places as well as their political weight was still very significant. On the one hand, it was an establishment of Prussia hegemony as a single-ruler, but on the other – this hegemony was more about the exclusion of other countries from the internal affairs, rather than the limitation of other lands authorities (Jeffery&Savigear, 1991). In addition, the authority for infrastructure support of lands remained on the shoulders of the Landers, which allowed under all circumstances to maintain administrative decentralization in the country (Urwin, 1998). This administrative type of decentralization was also fixed in the constructed body of Reich, that was responsible for the legal and administrative unification with the remaining autonomy of the Landers. It was the rule of law, and not the principle of centralized unitary governance, that worked for Germany in that period. Although, over time the Reich and other governmental bodies built more a nation-state rather than federation. It reflected in the growing importance of central government, parliamentary republic building and

also in the role of Reich itself. On the other hand, no unified strongly centralized policies were held.

After the several political crises in the Weimar republic (that happened due to the very unstable premier - presidential political system because of which the parliament was dissolved for dozens of times in a relatively short period of several years), the subsequent Nazi state centralization with Hitler came into power happened. After that there were 12 years of the only super-centralized period of German political system. All previous freedoms of decisions on the Landers level were neglected by the possibility of any political intervention from Berlin. It is important to mention, that this period lasted for 12 years and no stable institutions were built in that time – on contrary, all political interventions were made by the Reich decrees and not by some in-depth institutional changes.

In the end of the Second World War – the new political system, very similar to the one before the end of the XIX century was established. The idea remained the same: to build up a horizontal political model with the remaining historical administrative divisions. It was quite simple to do because of the divided territory of country between Soviet Union and Western block and due to the Reich deprivation of any political powers. As far as the modern Germany political system is about the western part of the country and not the Soviet one, it is logical to look at what happened to political institutions in the non-Soviet half of the country. The idea of political reforms was quite simple – to avoid any possibility of political centralization and to keep the original structure of the country, to make new political institutions as suitable as possible. There is also a “legend”, that a huge role in the re-establishing of German political structure were played by the United States, that is why the federal structure similar to the USA’s was created (Gunlicks, 2010).

There was another important fact in the re-building of federal structure in Germany. The role of the second chamber of parliament (Bundesrat) discussed a lot, and the main reason why this chamber has relatively significant power is because the Bavarian Lander insisted on the

redistribution of powers and large-scale opportunities of political influence that could be available for Landers. That was quite a big step against the possible centralization of German state – the initial idea was to centralize all legislative and executive powers in Berlin, leaving just administrative authorities to the lower levels (Jeffery&Savigear, 1991). Furthermore, Bavarian provincial parliament was one of the main actors pushing federal structure of Germany to the more decentralized one and, for instance, the only land that did not sign the Basic Law (or the new constitution) because of the lack of authorities for the Landers.

Even after the 1949 Basic Law agreement, there was one question that needed to be answered more precisely - the question of budgetary responsibilities. The first idea was quite unclear and formulated in terms of basic framework for the shared financial administration. The main problem was that until 1949 German Landers without central government needed to survive and govern on their territories, that is why establishing of new, more centralized system meant to refuse from some authorities Landers gained after the Second World War in favor of the central government. That is one of the key element we should keep in mind talking about German federalism – it is not only about the long self-governance tradition, but about the way of creation of the recent model. It was rather negotiations between Landers as equal actors, than establishment of new order from the central level to the peripheries. Moreover, the constant resistance from the lands (as in case of Bavaria) largely determined the existing institutional characteristics of the German federal system (Watts, 1991). Finally, the modern party system of Germany was founded not from the central level, but by the Landers' parliaments. Although, for all of them it was obvious, that there is a need to re-establish German state with all possible ways to avoid any option to repeat the horrifying centralization as was under Nazi regime, but also not to separate from each other or create a divided confederation.

4.2.Fiscal institutional arrangements of German federal state

After the Basic Law and the unification of state, another important question was raised up: how to provide financial unification of country in order to rebuild divided country with half of territories under planned economy rule into the market one (Wachendorfer-Schmidt, 2000). There were several challenges: how to equalize Landers but not to lose market-based competition and create fare distribution of resources according to Landers abilities and opportunities. It is important to keep in mind, that mostly because of the unification problem the modern fiscal federalism in Germany has such an equalizing character.

During the first eight years after the unification of Germany, its public debt doubled. The reasons for such a low efficiency of the economy were that all amounts were constantly allocated for equalization between the territories, while the Eastern part did not show significant economic results. However, even in the face of a strong distribution policy, the federal government failed to achieve the level of equality: one of the main taxes divided between the lands and the federal center (sales tax) remained more than 50% at the land level, whereas federal government wanted to use it as an equalizing mechanism. Due to the institutional strength of the Bundesrat, the federal center failed to reform the tax system to its own advantage, so the period of the crisis was prolonged (Wachendorfer-Schmidt, 2000).

In the mid-1990s, for regions and the federal center it became clear that new solutions to the existing problem of financial debts were needed. Part of the lands were in such a huge debt that it was no longer possible that they could solve this problem themselves. At one point, the Solidarity Agreement was assigned, according to which part of the sales tax goes to the federal center in order to use it for redistribution purposes. In addition, the federal center set new budgetary constraints, according to which the regions had a fairly large discretion of the debt owed. Moreover, the federal center was ready to cover their debts (Wachendorfer-Schmidt, 2000). Such

rules were established because of the great inequality of lands, the large economic crisis expressed in public debt, and also because of the desire to unify the standard of living between the lands.

Although, despite of the equalization policy provided by Germany, the level of fiscal decentralization of Landers is still relatively high – only in Switzerland and Canada the amount of responsibilities is higher (Bosch&Duran, 2008). Nevertheless, the large amount of money that are available for the Landers is not only due to the high taxation autonomy, but also because of the revenue-sharing with federal center. So, it is important to stress out, that the main source of German decentralization is the sharing some basic federal taxes with the federal center. And, in order of equalization, federal center gives a huge part of the tax revenues to the Landers. To be more precise, there are three mechanisms of equalization.

The first one works in such way, that based on “representative national average standard” those Landers that do not perform well gain huge budgetary transfers from those, that earn more than this standard. This part of equalization is a first stage of horizontal equalizing system. It is then supplemented by federal transfers for those regions that, even after the first stage of equalization, remain at a lower level than the rest of the regions. After these two stages of horizontal alignment, there is almost a full equalization of economic income of the regions. Although, even after these two stages, there is also a vertical mechanism of equalization, that is about the distribution of federal taxes between Landers according to their indicators of revenue capacity and population (Bosch&Duran, 2008).

So, there are several outcomes of such budgetary rules in Germany. The first one is that regions are not so much responsible for their well-being – because of distribution of taxes according to their revenues by federal center they are not very much responsible to the taxpayers. Moreover, the system of equalization creates such incentives for the Landers, that they are not interested in increase of incomes - after all, all surpluses will go to equalizing of those regions that earn little or

are in relative shortage of money. Between the regions, virtually no competitive advantages remain.

Finally, because of the democratic nature of this political system, Landers parliaments and governments are first and foremost responsible for the electorate and not for the federal government. That is why in case of low economic results of the Lander – federal center covers all budgets deficits, while Landers' politicians are busy with their re-elections. This problem is complicated by the structural weakness of German federalism. The fact is that according to the budget rules, Landers indeed have very large discretions regarding the expenditure of the budget - as well as a very soft framework, as a result of which the German lands have much more incentive to overspend the budget than to remain within it (Rodden, 2003). However, in addition to this, Landers do not have sufficient powers to increase its own revenues - all these responsibilities are assigned to the Bundesrat, while the authority for spending money is at the level of the Lands themselves. That is why, the voter does not recognize the responsibility of the region for bad economic performance, and Landers are in a very complex and institutionally confused system for making budget decisions, in which it is not clear who and how to punish, and also what incentives are there to make effective economic decisions. In addition, federal center has relatively small bureaucratic apparatus, while the biggest part is relied on the Landers bureaucracy which is first and foremost responsible for the federal decisions implementation (Rodden, 2003).

4.3. Russian Federation: historical legacy

Russia can hardly be called an heir to federal logic. From the period of Russian Empire, the central power in the capital has always been fundamental and decisive. For a long time, Russia existed in a fragmented, feudal form and did not have a single territory existing under general laws (Starodubtsev, 2017). This legacy has given several important historical lessons: the danger of fragmentation (which partly led to the loss of the Tatar-Mongol Yoke) and the danger of inter-war within the ruling elite (Linan, 2010). This has gradually made Russia on the one hand, to remove

strong players from the territorial level - that is, to make the governing of the territories a matter exclusively of bureaucrats and administrative apparatus but not strong rulers, and on the other - to build a vertical in which the central government determines everything from money to setting all the rules of the game (Linan, 2010). It is important to mention, that the Russian Empire existed in an absolutely unitary logic (Starodubtsev, 2018). Fundamentally important was the size of the territories, as well as the lands that Russia inherited from the wars which were exceptionally difficult to govern: another language, culture, and religion often became a prediction stone for any bureaucratic governance and clearly required some additional cultural responsibilities.

Many researchers note that the legacy of the Soviet Union is federal. In particular, the Soviet Constitution called the Soviet Union a "federation". Was it really so? In fact, Soviet "federalism" was a cultural authority for subjects, permission to work with self-governance but without any independent money. Is this also related to the lack of democracy in the USSR? Most of the literature on federalism will say "yes" (Filippov et. al, 2004) because the regions and territories had no option to bargain with the federal center for their powers, autonomy, etc. The direction of causal links in this process can be argued for a long time, but it is important to remember that without independent money at the subnational level, as well as without a free political process, the state does not meet the elementary criteria of federalism. For instance, D. Elazar said that one of the defining principles that distinguish federalism from any other type of administrative structure is the principle of "non-centralization" prescribed in the constitution (Elazar, 1987). In other words, no article of the constitution allows the federal center to take power away from the lower level. From this point of view, the Soviet Constitution is far from ideal -it did not at all imply a free federal contract between territories (Starodubtsev, 2017).

Undoubtedly, the size of the Russian territory is the cornerstone for a number of political institutions. First of all, it is in principle impossible to be governed without decentralization in such size of the territory. There is no way to control Vladivostok in Moscow, and therefore at least administrative decentralization, and in addition to it a budgetary one should be present. On the

other hand, such a size of territory causes the problem of incompatibility of the political life, in the case that there is no well functioned and effectively unified legal system (Gel'man, 2011).

After the collapse of the Soviet Union, the Russian Federation tried to establish new political and legal institutions: to create a new legal system, to establish a unified legislative framework for all territories. In practice, due to the increased number of authoritarian regional regimes, poor control over the territories, the refusal of some of them to pay taxes to the federal budget, and because of the general weakness of the central government, it became clear that the country could be prevented from the total disintegration only by creation of centralized system with weak territories and a strong center (Gel'man, 2011). This happened partly because of the number of territories that have a strong ethnic or religious factor, which is well used as a mobilization resource (for instance the North Caucasus and Tatarstan). Even more complicated situation is in terms of irredentist sentiments of the peripheral territories of neighboring states (from Ukraine to Georgia), as well as unevenly distributed resources across the country (Busigina, 2017). As a result, a consistent unitarization of the country was called upon to unite it and prevent the territories from disintegrating, but with the detriment of political freedoms.

To be more precise and understand the logic of modern federalism in Russia, it is necessary to return to the beginning of the 2000s, when Vladimir Putin only came to power. At that time, there was no single logic of federal relations in the country. The so-called "federal treaties" were individually signed up between the regions and the federal center. In these agreements, the federal center decided individually with each region how much political, budgetary and administrative powers would be transferred to the lower level (Watts, 2008). Some regions did not pay taxes to the federal budget - for example, Tatarstan and Bashkortazan, essentially established a one-level governance on their territory. Regions of the North Caucasus were in war with the federal center (primarily Chechnya and Dagestan). The rest of the territories transferred about 30% of taxes to the federal center, but the rest remained at the personal discretion of the regions without any restrictions or obligations (Starodubtsev, 2018).

It is known that with the arrival of Vladimir Putin in 2000 as the new president of Russia, the balance of power shifted towards the center. This was facilitated by three reforms. The first is the creation of federal districts, headed by representatives of the president. The place of the former representatives of President of the Russian Federation in the regions was occupied by federal inspectors, who became part of the presidential administration vertical. The institution of presidential representatives has existed since 1997, but the new reform has expanded their tasks and made them more influential (Starodubtsev, 2018).

The second reform regulated the procedure for federal intervention, according to which the President is able to dismiss governors and initiate the dissolution of regional legislative assemblies. It is interesting that despite the powers received, there were no concrete attempts to use such a lever of pressure until 2004, but the new mechanism stimulated regional authorities to bring regional laws in line with the federal ones (Starodubtsev, 2018).

The third reform, which seriously affected the system of federal relations in Russia, was a change in the procedure for the formation of the Federation Council, the regional chamber of Federal Parliament. Since January 2002, the governors and heads of the region's legislative body, previously representing the interests of the regions in the Federal Assembly, have been replaced by two representatives of the regions appointed by the respective governor and legislative body of the region. It is also important to recall the situation that developed in the State Duma after the 2003 elections. As a result of the parliamentary elections, the "United Russia" received 305 out of 450 seats in the parliament. Because of the existing majority, many laws initiated by the federal center (in particular, the law on fiscal reforms) were made without visible efforts, and all attempts to amend or vote against the bills by the remaining 145 Duma deputies were blocked.

4.4.Fiscal institutional arrangements of Russian Federation

Despite the fact that since the beginning of the 2000s the economic differentiation of the regions has started to decline, since 2003 the "oil type" model of economy has been fixed, according to

which the regions reach with natural resources received development opportunities, while the greater part of the regions required more and more means for economic equalization. Since 2000, the percentage of revenues coming to the federal budget has grown from 40 % to 60%. If we look at the trend toward equalizing the level of budgetary security, then it is obvious that the range of instruments with which the federal center provides financial assistance to entities is expanding.

For instance, in the RF Budget Code of 2004 there are three main mechanisms: grants, subventions and subsidies. Each tool is aimed at financial support for other levels of the budget system, and the main contradiction lies in the purpose and extent of this support. So, grants are transferred on a gratuitous basis, subventions are allocated for target expenses, and grants generate share financing of target expenses. All these mechanisms allow the federal center to transfer money to subnational units for the implementation of various administrative responsibilities. It is important to understand that large number of funds transferred in this way as well as limited number of independent revenues of regional budgets leads to the fact that federal center started to control most of the processes and responsibilities occurring within the regions. In addition, in this situation the government faces several problems: first of all, this is the lack of incentives for independent economic development of the region. In addition, because of the small field for maneuvering of regions in the tax system, the subjects of the federation almost do not have legal ways to stimulate economic activity in the territory of their region. In the case when the government intends to transfer administrative powers to the level of entities without giving the budgetary powers, a contradictory situation arises in which the regions have expanded powers, but economic freedoms are declining.

Although, in this highly centralized budgetary system without any freedom of choosing policies to implement or ways of money to spend, hard budget constraints help regions to be responsible for the federal center in terms of budgetary performance. Moreover, as far as Russian federal system occurs in authoritarian rules of the game, there is an important feature that distinguishes this system from any other democratic one – personal responsibility for the president. In 2004 the

new legislation abolished direct elections of governors and replaced them for appointment by the president. The president can not only appoint, but also remove the gubernator from office due to mistrust. However, according to the same personalistic logic, some regions can receive more transfers from the federal center, while others - less by unclear mechanisms. This unclearness, however, is largely determined by informal institutions of personal communication with the head of the country, as well as personal responsibility. In case the region regularly shows a high level of debt or does not comply with the administrative powers prescribed by the federal center - the gubernator can be removed from his post.

4.5. Russian-Germany comparison

In the Russian and German cases, there is a fundamental discrepancy - this is the historical legacy and tradition of federalism as such. While in Germany the period at which governance was strictly centralized is limited to 12 years of the Nazi regime, in Russia it is almost the entire history of the state. In Russia, there has never been a strong regional government that could have had an equal dialogue with the federal center - on the contrary, the federal center since the days of the Soviet Union is still a key player on which the adoption of all major decisions depends. A small period of regional autonomy in the 1990s taught a lesson for future generations not to give too much power to regions in country that is ethnically heterogeneous and located in such large territories - this will inevitably lead to the disintegration of the state. In Germany, the lesson was reversed – by all possible means to prevent centralization, similar to the one that was under the Nazi regime. The lands should always have their own responsibilities and rights distributed between the regional parliaments and the Bundesrat.

Table 4: Russian-Germany historical comparison

Historical legacy	Russia	Germany
Tradition of federalism	No	Yes

Preferable type of responsibilities allocation	Centralized	Decentralized
Type of decentralization	Administrative, partly fiscal	Political, partly fiscal, administrative

Modern fiscal federal systems of Russia and Germany are similar in their basic logic - in both countries, the state is trying to equalize the level of economic development of regions, but does so in very different ways. While in Germany the problem of dual responsibility occurs and there is no incentive to perform responsible fiscal behavior, in Russia because of the authoritarian political rules, the responsiveness is direct to the head of state, which leads to a better fiscal performance. One of the main reason for such different types of fiscal behavior is in the amount of responsibilities on expenditure – while Russian region enjoys only those expenditures that were established and controlled by the federal center, German Landers have opportunities to decide the ways of spending money by themselves without any restrictions. Moreover, German Landers have unrestricted opportunities to borrow money – nor Bund, neither central government have to approve the amount of borrowing money. In addition, the borrowing rules of Landers are also “blurred” – the amount of borrowing money should be no more than “the outlays for investment purposes” (Rodden, 2003) which is quite unclear definition. In contrary, Russian regions have to approve borrowing on the federal level and this amount should be purposed for particular administrative responsibilities implementation.

Table 5: Russian-Germany fiscal rules comparison

Types of fiscal rules	Russia	Germany
Borrowing	Regions do not have the opportunity to independently borrow money, requires confirmation of the federal center	Regions fully have the opportunity to independently borrow money, without any confirmations of the federal center
Taxation	Today Russian regions collect only 30% of taxes independently with the	The regional level of Germany collects and retains in its budget up to 70% of all

	possibility to leave them at the regional level. The rest goes to the federal center and then redistributed.	taxes. The rest is spent on equalization and redistribution programs, both directly to other regions, and through the federal center.
Federal Transfers	The federal center transfers to the Russian regions up to 80% of all money. These flows are divided into target (that is, the implementation of specific laws or federal programs) and general (that is, the implementation of the budget by the decision of the region)	Except for a small amount that goes to specific federal programs, most of the federal transfers are aimed at equalizing the economic well-being of regions and redistributing cash flows.

5. QCA analysis and results

In this chapter the outputs of the QCA analysis are presented. In the first part of the chapter the particular models from the software are presented, in the second part there are results and possible interpretations. All models are performed in the crisp-set Qualitative Comparative analysis with only two types of categorical variables (0 and 1) and in the configuration with and without logical reminders.

5.1.QCA analysis models

As a first step all the data available for both countries was collected, transformed in categorical type according to the operationalization procedure discussed in Chapter 3 and then calculated in average numbers per one electoral cycle. The descriptive table with the descriptive indicators on both countries could be found in Appendix 1.

According to these statistics, we can see that there is a real difference between the level of budgetary performance in Germany and in Russia - in Russia the indicators of budgetary performance is systematically higher. Now, with the help of the "TOSMANA" software, we try to build truth tables and see how the distribution of cases looks and what set of variables leads to the consequences of budgetary performance. It is important rule of QCA that we are not allowed to use more independent variables than the number of observations we have, that is why all independent variables will be divided into two groups according to three types of incentives: hierarchical (three types of decentralization, type of political system and parliamentary strength), political (clearness of the fiscal rules for voters) and market (tax autonomy, federal transfers, borrowing autonomy). Political and market incentives will be put in the same model because of the interconnection between these incentives. Moreover, all two groups of variables will be tested with two types of dependent variable separately. Finally, QCA works only with categorical variable, so those variables that are numeric will be transformed into categorical (for instance tax autonomy or amount of transfers). Variable legends and cases names could be found in Appendix 2.

The first tested model includes budgetary performance and hierarchical incentives:

Table 6: Budgetary performance and hierarchical incentives QCA model for outcome = 1 (bad budgetary performance)

POL_DEC{1} * ADM_DEC{1} * PARLIAMENT{1} * POLIT_SYST{1}
(GER98,GER02,GER05,GER09+GER13)

As we can see from these results there is one type of incentives set that leads to the worse budgetary performance. In case when there is an existence of political and administrative decentralization, as well as the strong chamber in parliament representing regional interests and also parliamentary political system - it shows lower level of budgetary performance (with deficits). It is also important, that there are no cases of Russia under hierarchical incentives that lead to a lower level of budgetary performance.

The second tested model includes debt and hierarchical incentives:

Table 7: Regional debts and hierarchical incentives QCA model for outcome = 1 (rising of regional debt)

POL_DEC{0} * FIS_DEC{0} * ADM_DEC{1} * PARLIAMENT{0} * POLIT_SYST{0} +	POL_DEC{1} * FIS_DEC{1} * ADM_DEC{1} * PARLIAMENT{1} * POLIT_SYST{1}
(RUS03,RUS07,RUS16)	(GER98,GER02,GER05,GER09)

This model is too complicated, that is why logical reminders were included into the analysis:

Table 8: Regional debts and hierarchical incentives QCA model for outcome = 1 (rising of regional debt) with logical reminders

POL_DEC{0} +	FIS_DEC{1}POLIT_SYST{1}
(RUS03,RUS07,RUS16)	(GER98,GER02,GER05,GER09)

In this case there are two possible sets of incentives that lead to a bigger regional debts: the absence of political and fiscal decentralization with the presence of administrative decentralization, presidential political system and weak regional representation in parliament, or with presence of political, fiscal and administrative decentralization and also with parliamentary system and strong representation of regions in federal parliament. Although, these two models are too complicated

and need so many variables, that is why logical reminders are needed. With them only the absence of political decentralization leads to a higher debt in Russian regions, while presence of fiscal decentralization with parliamentary political system are the key one in German cases. In contrast to the budgetary performance under hierarchical incentives, regional debts are also existing in Russia under certain hierarchical incentives of this country.

The third tested model includes budgetary performance and political incentives plus market incentives:

Table 9: Budgetary performance and political incentives + market incentives
QCA model for outcome = 1 (bad budgetary performance)

FISC_CLEAR {0} * BOR_AUT {1} * TAX_AUT {0} +	FISC_CLEAR {0} * BOR_AUT {1} * FED_TRANSF {1}
(GER98+GER02, GER09, GER13)	(GER98+GER05)

From this model we can see that the absence of fiscal clearness with the presence of borrowing autonomy are the necessary conditions for bad budgetary performance but only in combination with one of two other conditions: lower tax autonomy or higher level of federal transfers. As well as in case of hierarchical incentives, lower budgetary performance under political and market incentives performs only in German cases. Although, this model is too complicated, that is why logical reminders were included into the analysis:

Table 10: Budgetary performance and political incentives + market incentives
QCA model for outcome = 1 (bad budgetary performance) with logical reminders

BOR_AUT{1}FISC_CLEAR{0}
(GER98+GER02,GER09,GER13+GER05)

After inclusion of logical reminders only presence of such incentives as high borrowing autonomy in combination with the absence of clear fiscal responsibilities division for voters are necessary for the bad budgetary performance in German cases.

The fourth tested model includes regional debts and political incentives plus market incentives:

Table 11: Regional debts and political incentives + market incentives
QCA model for outcome = 1 (rising of regional debt)

FISC_CLEAR{0} * TAX_AUT{0} * FED_TRANSF{1} +	FISC_CLEAR{0} * BOR_AUT{1} * TAX_AUT{0} +	FISC_CLEAR{0} * BOR_AUT{1} * FED_TRANSF{1}
(RUS16+GER98)	(GER98+GER02,GER09,GER13)	(GER98+GER05)

There are three different sets of political and market incentives under which higher regional debts might occur. In each of them the low level of fiscal clearness is present. Although, the rest of the models is different: low tax autonomy with high level of federal transfers or high borrowing autonomy. There is only one Russian case in these models. Inclusion of logical reminders does not make the model simpler.

5.2. Results and interpretations

The results of the crisp-set Qualitative Comparative analysis shows several important tendencies. First of all, German regions systematically show low level of budgetary performance, as well as high level of regional debts. In contrast, Russian cases are existed only in models with debts outputs and not in the models with budget balances. There might be several explanations, and one of them is that Russian regions are under more strict constraints from the federal center perspective as well as under much higher level of centralization. Because of these two facts, regions are highly dependent on the federal center budgetary performance as well as on its transfers and permissions for debts. So, while in German case regions are independent actors, in Russia there is a strong power of center where regions are responsible only for 30% of their budgets.

Secondly, in case of Russia and Germany there are two different sets of hierarchical incentives, that lead to higher regional debts. While in Russia it is the absence of political and fiscal decentralization with the presence of administrative decentralization, presidential political system and weak regional representation in parliament, in Germany with exception of administrative decentralization the rest is the opposite. More than the half of Russian cases fall under these conditions, and almost all of German. With the inclusion of logical reminders and simplification

of the model it turns out that the absence of political decentralization is the key one for Russian regions' higher debt. On the other hand, presence of fiscal decentralization with parliamentary political system are important for German case.

These are very interesting and unusual conclusions. Because of the lack of independent political powers, the Russian regions show poor results with debts. This might be caused by the fact that all debts of the regions are sanctioned by the federal center and could be taken only with its permission. It means that the region on the one hand has no political responsibility to the voters - as there are no free elections - and on the other, there is no political responsibility to the federal center, since it was national government that allowed debts that can not be covered. In addition, it is possible that the federal center and its economic indicators are the reason for the large debts of the regions in Russia.

On the other hand, the high level of fiscal decentralization in Germany, together with the existence of a parliamentary system, leads to great debts. This can also be explained in a lower level of fiscal discipline. The parliamentary system can often become a slow and unwieldy mechanism for "punishing" bad debt indicators of the regions because of the complicated structure. Together with the high level of regional tax autonomy, this leads to a lack of proper fiscal discipline.

Considering the political and market incentives for poor budget performance, taking into account the simplification of the model, the existence of a high level of borrowing autonomy and the lack of transparent rules of the distribution of responsibilities between different levels, there is a systematic deficit of regional budgets (only in the case of Germany, Russia falls out of the observation). Such results can be explained predominantly by the lack of any political incentives for the regions to show the better budgetary performance (since the voter still does not know whom to punish for bad economic indicators - the federal center or regions), and secondly, by the lack of budgetary established by the federal center.

Finally, the most controversy results are presented in the last model which is also the most complicated one. It is again predominantly about German cases with only one Russian exception, although we can conclude that the absence of clearness of fiscal responsibilities division between different levels for voters is crucial for higher regional debts. Also, higher amount of federal transfers signals about the higher regional debt, especially with the higher borrowing autonomy or lower tax autonomy. As we can see, higher borrowing autonomy is a constant necessary condition for the lower budgetary performance or higher regional debt. The same is about lack of fiscal responsibilities transparency. These two variables are the key "bad" budget incentives for the budget indicators of the regions.

Thus, we can note those variables that showed sustained negative results for budgetary performance in terms of debt and budget balance of regions:

Table 12: Types of incentives leading to a lower budgetary performance and higher level of regional debts

	Germany	Russia
Hierarchical	Fiscal decentralization; Parliamentary political system	Political centralization
Political	Lack of transparency of responsibilities distribution for voters	Lack of transparency of responsibilities distribution for voters (in only one case)
Market	Large amount of federal transfers in combination with high borrowing autonomy	Large amount of federal transfers in combination with low tax autonomy (in only one case)

Conclusion

In this paper, a comparative study of two cases was carried out: Russia and Germany were compared as two most typical cases from the sample of democratic and sample of authoritarian federations. Two countries in the period from 1991 to 2016 were studied from two positions. On the one hand, their historical heritage and the origins of the recent rules of federalism were examined. In addition, the existing rules of the fiscal system in these two countries were studied. After a descriptive analysis and work with the existing literature, a Qualitative Comparative Analysis was also conducted. In this part, two dependent variables were analyzed - the budget performance and the level of regional debt. Their indicators were tested depending on the three types of fiscal incentives: hierarchical, political and market.

This research is answering the question why, despite the existing legacy of federative relations with the substantial level of decentralization, democratic traditions and high level of accountability in Germany, it is not possible to show high levels of budgetary performance there, whereas in the absence of all this and with the high level of political centralization in Russia, it is possible to create system with good budgetary performance. The hypothesis of this research was that indeed, the historical heritage and democratic rules increase the level of decentralization, but this does not necessarily lead to better budgetary performance. Indeed, the results of this study approve this hypothesis.

However, there are several serious limitations. First of all, political centralization does not promote budgetary performance and on the contrary, leads its indicators to the worse level. On the other hand, the presence of budgetary centralization is a positive element of the system that leads to better performance. Other important elements are well-adjusted budget incentives: the availability of transparent political incentives, according to which voters can distinguish the culprit of a bad economic situation and punish it by voting is extremely important in all models. Moreover, the correctly created budget constraints are extremely significant. The case of Germany, in which there

is also confusion in the formal institutional rules between the Bundesrat and regional governments, shows well that the institutional arrangement also plays an important role.

However, in all these conclusions there is an essential element that should not be forgotten. Strong budgetary centralization in stable democratic federations can be a consequence of political centralization bordering on authoritarian tendencies. Since in democratic federations all changes in federative rules are decided jointly by the region and the federal center, it is difficult to imagine that the regions voluntarily agree on such a significant cut in their budgetary powers. And although even under authoritarian tendencies the budgetary performance is better, one must think many times about the political price given to good budgetary indicators. In Russia, unlike Germany, there is a much higher level of centralization, but not all centralization is in favor of better budgetary performance. Number of budget incentives in a very centralized system lead to worse indicators: political centralization, lack of transparent mechanisms for assigning responsibilities, and strong dependence on federal transfers with low tax autonomy. However, in general, the country's indicators are better than in the regions of Germany. With a relatively high level of decentralization, many of Germany's decentralization mechanisms work towards a worse performance. In particular, a strong level of fiscal decentralization, a lack of transparent budgetary allocation mechanisms (which is largely related to the type of parliamentary system in that country), and a large number of equalizing federal transfers together with an uncontrolled regional opportunity to borrow money make regions' performance lower.

Thus, we can confirm the hypothesis that was put at the beginning of this research. Despite of the historical roots, federal legacy and democratic type of regime with a greater level of decentralization, budgetary performance is not a direct consequence of such a system. On the other hand, a more centralized system more often shows the better results in terms of budgetary performance, although some centralization tendencies (primarily political ones) also do not contribute to the best level of budgetary performance.

Further research and limitations

As far as this research is comparative and works only with two cases, there are not only advantages of more in-depth analysis, but also some important limitations of this approach. First of all, it is extremely difficult to make any conclusions that broader than about just two cases. On the one hand, it is already a contribution in the recent studies on German and Russian federalism. On the other, to make valid contribution in the fiscal federalism field recent research is too narrowed and needs some additional analysis on bigger number of cases. Despite the fact, that methodological approach of this research based on comparison of two most typical cases from two samples, it is hardly solves the problem of limited conclusions.

Another important limitation is connected with the operationalization of budgetary performance itself. In this work we operationalize it through two concepts – budget balance and regional debt. On the one hand, both indicators might be direct signals of the worse fiscal performance and bad fiscal incentives. On the other, it is extremely important to keep in mind that possible reasons might exist in another type of explanations. For instance, overall decline of economic situation in country might cause rising of debts as well as budget deficits. The problem of budgetary performance concept is in its broad definitions and lack of strict conceptualization in the recent literature. Although, the same approach of operationalization was used by J.Rodden (2002; 2004) with the similar limitation problem.

Finally, a weak variation of observations is also a problem for data analysis - because the level of variability of relatively stable political and budgetary rules in the federation is very low, it is difficult to catch any changes in time. One of the solutions to such a problem could be a statistical time-series study with a large number of cases (countries) and with a broader time frame and probably with interactions between more and less stable variables.

Appendix 1

Germany: descriptive table

Germany	Budgetary performance	Regional debt	Political decentralization	Fiscal decentralization	Administrative decentralization	Parliamentary power	Political system	Fiscal responsibility	Borrowing autonomy	Tax autonomy	Federal transfers
1998	1	1	1	1	1	1	1	0	1	0,5	0,66
2002	1	1	1	1	1	1	1	0	1	0,5	0,25
2005	1	1	1	1	1	1	1	0	1	1	0,66
2009	0,5	0,7	1	1	1	1	1	0	1	0,25	0
2013	1	0	1	0	1	1	1	0	1	0,5	0,25

Russia: descriptive table

Russia	Budgetary performance	Regional debt	Political decentralization	Fiscal decentralization	Administrative decentralization	Parliamentary power	Political system	Fiscal responsibility	Borrowing autonomy	Tax autonomy	Federal transfers
1999	0,5	0,25	1	1	1	1	0	1	1	0,33	0,66
2003	0,5	0	0	0	1	0	0	0	0	0,33	0,33
2007	0,25	0,25	0	0	1	0	0	0	0	0,25	0,25
2011	0	0,5	1	0	1	0	0	0	0	0,66	0,75
2016	0	1	0	0	1	0	0	0	0	0,6	0,8

Appendix 2

QCA software legends

GER98, GER02, GER05, GER09, GER13	Germany and the year of federal parliamentary elections
RUS99, RUS03, RUS07, RUS11, RUS16	Russia and the year of federal parliamentary elections
BUD_PER	Budgetary performance (1 – lower, 0 – better), 0,5 threshold
DEBT	Regional public debt (1 – higher, 0 – lower), 0,5 threshold
POL_DEC, ADM_DEC, FIS_DEC	Political, administrative and fiscal decentralization (1- presence, 0 – absence)
FED_TRANSF	Amount of federal transfers (1 – higher, 0 - smaller), 0,4 threshold
PARLIAMENT	Chamber of federal parliament, representing regional interests (1 – strong, 0 – weak)
POLIT_SYST	Political system of country (1 – parliamentary, 0 – presidential)
FISC_CLEAR	The level of clearness of the fiscal responsibilities distribution between different levels of government for voters (1 – clear, 0 - unclear)
BOR_AUT	The level of borrowing autonomy of the regions (1 – higher, 0 – lower)
TAX_AUT	The level of tax autonomy of the regions (1 – higher, 0 – lower), 0,62 threshold

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