The Politics of Bad Governance in Contemporary Russia

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Opportunities and Constraints

Policy Reforms in the 2000s

Why are some socioeconomic reforms successful while others are not? To what extent do the political regime and its institutions affect the outcomes of major socioeconomic reforms? Can a reform-minded nondemocratic leader, supported by a team of well-qualified experts, modernize his/her country without the fear of losing in free and fair competitive elections? And what of the conditions supporting (or opposing) the successful implementation of such a narrow program of authoritarian modernization?

The Russian experience of socioeconomic reforms in the 2000s can be perceived as a crucial case of authoritarian modernization in the context of post-Communist social and political changes. In 2000, when Vladimir Putin came to power, the Russian government proposed an ambitious and large-scale program of economic and social reforms in Russia. Some of these reforms were initiated by the liberal economists who had greatly influenced the policy agenda in the 1990s.\(^1\) In the 2000s, they sought to implement their ideas under more favorable circumstances. The 1990s had been marked by a deep and protracted economic transformation recession, a major decline of state capacity, and constant intraelite conflicts; by contrast, the 2000s became a period of high economic growth, recentralization of the Russian government, and large-scale support for Putin’s leadership from major political and economic actors and from Russian citizens. Although the policy reforms of the 2000s contributed to the improvement of the quality of governance in Russia, their outcomes have failed to meet the expectations of optimists and pessimists alike. A decade later, the reformers themselves assessed the implementation of their programs, and their leading figures, such as German Gref and Yevgeny Yasin, realized that fewer than half of the proposals had been implemented, and only a few had been successful. (A more precise calculation made in 2016 by the team of the Center
for Strategic Research found that only 36 percent of policy changes had been implemented.) Several proposed measures stopped at the stage of discussing good policy alternatives, and among those reforms that have been implemented successfully, some have had a series of unintended and undesired consequences.\(^2\)

It is necessary to explain this diversity of outcomes of policy reforms, considering they occurred nearly simultaneously and within nearly the same economic and political circumstances. A synchronic comparative analysis allows me to disregard certain factors such as the impact of the Soviet legacy or public opinion of the Russian people: I do not assume that these factors were unimportant, but they do not explain why some reforms succeeded and others failed. At the same time, the widespread statements that tend to explain the troubles of policy reforms through the resistance of interest groups (“oligarchs,” *siloviki*, regional leaders, and other rent-seekers),\(^3\) the rise of global oil prices, or Putin’s interest in consolidating his personal political power\(^4\) are limited and insufficient. They do not adequately explain why the tax reform of the 2000s became a success story, but the reform of the system of social benefits (*monetizatsiya l’got*) faced numerous problems. Why was the reform of the school graduate evaluation system implemented despite considerable costs, while the reform of the state administrative apparatus and the full-scale reorganization of federal government agencies in fact led to an increased number of bureaucrats and their empowerment? Putin, oil, and *siloviki* alone are not responsible for the variation in the outcomes of reforms that were launched almost simultaneously and under similar conditions. This chapter attempts to explain the factors and mechanisms behind the successes and failures of the 2000s’ policy reforms in Russia. I focus on the one hand on the impact of electoral authoritarianism and the poor quality of the state on policy changes, and on the other hand on the institutional factors that affect the vertical and horizontal fragmentation of the Russian government and the inefficiency of its policies.

**Russia’s Policy Environment in the 2000s:**

**Institutions and Incentives**

The influence of major political institutions such as the separation of powers and electoral and party systems on policy-making has been widely analyzed, but mostly focusing on democratic political regimes,\(^5\) while the effects of authoritarian political institutions on policy outcomes have been underexplored.\(^6\) Under authoritarianism, parliaments and political parties perform a secondary role in decision-making at best.\(^7\) The main policy-making agent is the government,
which is appointed and controlled by the authoritarian leadership. In terms of institutional design, present-day Russia is a typical case of the “dual executive” within the framework of a presidential-parliamentary model. The Russian president, as a popularly elected head of state, can appoint and dismiss the cabinet as a whole as well as its individual members. Although the prime minister is approved by the State Duma, he is dependent on a president who can undo any of the prime minister’s decisions and can issue presidential decrees that the government must follow. Thus, the Russian institutional design intentionally ensures that the government hold a minimal level of autonomy and perform technical (rather than political) functions. Its role is reduced to implementing the tasks posed by the president and performing routine, daily administrative work in social and economic policy areas.

This model of state governance, codified in the 1993 Constitution, was inherited from both the Soviet model (based on an informal division of labor between the Central Committee of the Communist Party of the Soviet Union and the Council of Ministers) and the Russian Imperial model (based on the monarch’s control of both the royal court and the cabinet of ministers). From an authoritarian regime’s perspective, this model has both advantages and disadvantages. The main advantage is the opportunity for the president to replace top officials if they are inefficient and/or politically disloyal, or if the president intends to change his policy. In addition, such a model allows shifting the responsibility for policy implementation and switching the blame to the government rather than the president (in the 1990s, Yeltsin used this method quite frequently, reshuffling his government several times). At the same time, citizens’ assessment of economic policy performance is an important source of mass support of political leaders, therefore the president is genuinely interested in successful government in terms of its performance. The problem is that the coexistence of the president with a capable and popular government can lead to an erosion of the presidential political monopoly; a successful prime minister can challenge the incumbent in the next electoral cycle as an opposition-backed candidate and/or a potential successor (as shown by the cases of Yevgeny Primakov in Russia and Viktor Yushchenko in Ukraine). The combination of great managerial efficiency and unconditional personal loyalty to the boss is rare among top state officials. As a result, the rise of the principal-agent problem is deeply embedded in this model.

A low level of government autonomy leads to the transformation of the cabinet of ministers from a collective entity of key decision-makers to a technocratic set of officials responsible for implementing the commands of the president and/or prime minister. The president (or in some instances, prime minister) “hires”
individuals for executive positions, considering them to be technocratic managers rather than politicians. Hence, the cabinet in this system of governance is neither a group of officials who are politically responsible before the parliament nor a team of professionals who share common policy goals and methods. The prime minister is responsible for coordinating this complicated web of relationships. He is dependent on numerous deputy prime ministers who supervise various state agencies (at times, there have been as many as ten of these deputy prime ministers in Russia). As a result, policy-making under these conditions turns into a complex and often inefficient series of bargains and ad hoc agreements between several state agencies. Top officials must spend countless resources to win intragovernmental struggles. This is why policy-making under these conditions is often perceived by observers as a difficult process.

In Russia’s case, policy-making becomes even more complicated due to additional institutional flaws. First, the state agencies responsible for national defence, state security, and foreign affairs have been directly subordinated to the president since 1994 even though their chiefs are also members of the government and should be subordinated to the prime minister as well (later, other state agencies were also added to this list). Second, in order to resolve the principal-agent problem, presidential control has been imposed on the government; this role is performed by the presidential administration, directly subordinate to the head of the state (the Central Committee of the Communist Party performed the same function during the Soviet period). This model intentionally creates parallel governance structures that often compete during the policy process and therefore hinder decision-making. Third, the key ministers and/or deputy prime ministers who are personally linked to the president can influence major policy decisions, bypassing the web of agencies or even bypassing the prime minister. Anatoly Chubais and Boris Nemtsov (two first deputy prime ministers) in 1997–1998 and Aleksey Kudrin and German Gref (ministers of finance and of economic development, respectively) in 2000–2004 successfully employed this policy strategy. Finally, several presidential decrees are often prepared without the involvement of the governmental officials responsible for certain policy areas. As a result, these presidential decrees sometimes cannot be implemented properly. In addition to horizontal fragmentation (between governmental agencies and other federal executive offices), vertical fragmentation between the federal government and its branches at the subnational level also plays a significant role. In the 1990s, a full-scale decentralization of governance contributed to the capture of territorial branches of federal agencies by the regional elites. In the 2000s, a recentralization of state governance reestablished the federal center’s
political control over regional authorities but did not establish a division of competences and resources between federal and regional governments. The shift to a hierarchical subordination of territorial governance exacerbated the agency problem in relationships between the center and the regions.\textsuperscript{18}

Given these institutional arrangements, one might argue that the Russian executive, even in routine governance, must deal with aggravation of principal-agent problems in relations both between the president and the executive and within the government. This complicates the coordination of different state agencies and their actions and contributes to a protracted policy-making process and/or the making of inefficient decisions. Under these circumstances, the implementation of a full-scale reform program faces serious obstacles. Any bureaucracy is known to be interested in preserving the status quo.\textsuperscript{19} Russian political institutions are not capable of overcoming hidden resistance from bureaucrats, especially if and when policy-making requires interdepartmental coordination between different layers of the power vertical and numerous gates of the federal government. If reforms need concerted, large-scale, and highly coordinated action from various segments of the federal and regional bureaucracies, this becomes a major problem for policy changes. The lack of political accountability and the inefficiency of mechanisms of centralized control\textsuperscript{20} pushes officials to minimize their efforts to implement policy changes approved by the president. The more significant the involvement of the bureaucracy in policy implementation, the stronger the resistance it experiences from most officials. The policy reformers may be endorsed by a few ideologically driven proponents of these reforms and/or by policy entrepreneurs who expect to achieve personal gains from successful policy implementation.

At the beginning of the 2000s, favorable political conditions for policy reforms appeared to emerge in Russia. Due to rapid economic growth after a long and protracted recession,\textsuperscript{21} Putin gained significant popular support. After the 1999 parliamentary election, the Kremlin was able to establish a pro-presidential majority in the State Duma that approved almost all of the Kremlin’s initiatives.\textsuperscript{22} Strengthening state capacity\textsuperscript{23} and recentralizing state governance\textsuperscript{24} allowed the Russian government to reduce the influence of rent-seekers in policy-making. But the major driver of policy reforms at that time was Putin’s unequivocal support for implementing socioeconomic changes. These circumstances opened a window of policy opportunity\textsuperscript{25} that had been closed in the second half of the 1990s.\textsuperscript{26}

The concept of the reform program (“the Gref Program” or “Strategy 2010”) was developed in the first months of 2000 by the experts at the Center for
Strategic Research (CSR, Tsentr strategicheskikh razrabotok). Under Putin’s patronage, this center aimed to develop the previous decade’s policy proposals. The choice of policy options and Putin’s policy positions were influenced by the previous experience of the 1990s. Putin prioritized building a strong and efficient state that would provide long-term economic growth based on financial stabilization and a successful fiscal policy. Improvement of the quality of governance was also listed as one of the priorities of the Strategy 2010 program. Indeed, the weakness of the Russian state and its fiscal crisis are justly considered to be the ultimate cause of policy failures and poor quality of governance in the 1990s.

Therefore, major reforms in these policy areas became the key points in the reformers’ agenda at the beginning of the 2000s. At the same time, social policy changes that would contribute to societal development in the medium-term perspective were not declared to be top priorities, even though half of Gref’s program was devoted to policy changes in these areas. Under electoral authoritarian regimes, social policies are often perceived not as a strategic goal of government but as a means of providing electoral loyalty. The experience of both the 1990s and the 2000s demonstrates that the Russian case is not an exception.

Despite the CSR’s role as a think-tank, there was no headquarters that managed or even coordinated various reforms. They were implemented as a set of inconsistent measures controlled by specific ministries. Mikhail Kasyanov, the prime minister from May 2000 to February 2004, did not participate in preparing Strategy 2010. His views often contradicted the policy ideas of key ministers that developed this program. His successor Mikhail Fradkov did not become a significant political actor. In practice, all important decisions (including large-scale reorganization of the Russian government in 2004) were made by the president. In some cases, the responsibilities for reforms were concentrated in one governmental agency, but often they were divided between several ministries and agencies in both the center and the regions. While some reforms required only the one-time adoption of a package of legal acts, others included a sequential chain of actions that required coordination of various actors over a long period of time. Theoretically, one can expect that inconsistent and protracted policy changes will be implemented in an inefficient way, especially under conditions of an electoral authoritarian regime; as such, without immediate positive results in the short term, these reforms may be blocked and ultimately fail.

Thus, the features of the Russian bureaucracy and the institutional design of the executive imposed major constraints on the implementation of reforms in the early 2000s. The possibility of overcoming these obstacles depends, in my opinion, upon three factors: (1) the strategic priority of certain reforms for the
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How and why have these factors influenced specific policy reforms and what was the impact of these reforms on bad governance in Russia? To answer this question, I will analyze the experience of policy changes in Russia in the first half of the 2000s.

successes and failures of reforms: case studies

**Tax Reform: A Major Success**

The tax reform implemented in the early 2000s in Russia became a model example of the most successful policy changes of that period. In the 1990s, the emergence of the modern tax system in Russia was accompanied by a weak state capacity, a spontaneous decentralization of governance, political instability, and the obvious imperfections of many legal regulations. As a result, Russian authorities had major difficulties with tax collection causing a major fiscal crisis. The widespread use of numerous tax exemptions, nonmonetary payments in the form of different offsets and money substitutes, and the proliferation of legal, extralegal, and illegal schemes of tax evasion, combined with the high taxation rates and the large number of taxes, made the government’s fiscal policies inefficient.
From a formal viewpoint, the tax reform involved the development, adoption, and implementation of the Tax Code, which established unified rules of taxation and fiscal governance in Russia. Its first chapter, which defined the foundations of the country’s tax system, was adopted in 1998. But the development of the second chapter took five more years. In 2000–2004, a new set of taxes and tax rates was established that replaced previous ones. As a result, on the one hand, the tax burden on individuals and businesses was drastically reduced (especially due to the changes in the taxation rates of value added tax and profit tax and the introduction of the unified social tax). On the other hand, the fiscal revenues of the state budget increased. This was achieved by adopting a flat rate of personal income tax (13 percent), instead of the “progressive rate” that stimulated tax evasion among relatively well-to-do taxpayers. As a result, between 2000 and 2007, extra revenues for the Russian budget reached an overall level of 1 percent of the GDP (excluding oil revenues).

In addition, the government managed to push a new model of taxation for oil companies through the parliament. First, a subsoil use tax was established with its rate depending on the sector of the economy and the production costs. Second, a progressive rate of oil export duties was introduced, and oil products excises were increased. As global oil prices were rising unprecedentedly after 2003, these policy measures contributed to an immense increase in budget revenues. The increase of tax revenues from the oil sector allowed the government to establish the Stabilization Fund of the Russian Federation—a mechanism for sterilization of budgetary revenues intended to prevent high rates of inflation and to form financial reserves in case of a major decrease in global oil prices. The Stabilization Fund was established despite resistance from certain government ministers and from several MPs (members of the parliament) and lobbyists who were interested in spending extra revenues on current projects instead of saving funds for the future. The prudence of this policy became evident during the 2008–2009 economic crisis when the Reserve Fund of the Russian Federation (which was formed with the use of the Stabilization Fund’s resources) covered the Russian budget deficit.

Every aspect of the tax reform had its own influential opponents. MPs from the Communist Party of the Russian Federation fiercely opposed the flat rate of income tax. They considered it a means of tax evasion for the wealthy. Representatives of the state pension and social insurance funds argued against the unified social tax because they lost control over collection of money paid by companies. Finally, oil companies attempted to block the introduction of the
subsoil use tax because it greatly increased taxation in that sector.\textsuperscript{39} However, despite this resistance from various corners the tax reform was implemented.

The key factor in this success story was Putin’s full-scale support of the reformers—Aleksey Kudrin, the minister of finance, and German Gref, the minister of economic development, who relied upon teams that included officials in their respective ministries and numerous experts and advisors. Besides the personal credibility of the reformers, based on the common experience they shared during their service in Saint Petersburg’s city administration, Putin considered creating an efficient tax system a priority for his agenda. Thus, he included the introduction of the flat rate of personal income tax in his Budgetary Address to the Russian Parliament, delivered in May 2000. This move consolidated the presidential majority in the State Duma\textsuperscript{40} in support of this decision. The decision to introduce the subsoil use tax was more complicated. Russian oil companies influenced the State Duma budgetary committee to a large degree and had support from several MPs. But despite lobbyists’ efforts, the government was able to squeeze this proposal through the State Duma. At the end of the day, the oil lobby accepted a consolation prize—the government would be prepared to decrease the subsoil tax rate to zero if the price of oil dropped below $8.00 per barrel; in any event, this did not happen.\textsuperscript{41}

Another factor in the success of the tax reform was the concentration of policy-making in the hands of reformers and their supporters. Close connections between Putin, Kudrin, and Gref allowed the two ministers to insulate the decision-making process from their major opponents. Indeed, Putin unilaterally adopted many financial and economic decisions without the participation of the prime minister or the cabinet.\textsuperscript{42} For example, a bill on replacing numerous social taxation payments with the unified social tax (a flat rate payroll tax, paid by companies) was submitted to the parliament without the agreement of other state officials, including the heads of the pension and social insurance funds. The stability of the new rules of the game was supported by the long service of the reformers as ministers: Gref left the Ministry of Economic Development in 2007, and Kudrin lost his post as minister of finance in 2011.

Finally, the tax reform was not subjected to a long implementation process. The decision on the flat rate of the income tax was proposed and adopted within one year. Then the Ministry of Finance managed to protect this change from several initiatives to introduce progressive taxation, arguing that the new mode of taxation was efficient because budgetary revenues had increased. However, some elements of tax reform did not survive in the longer term: this was the case
with the unified social tax, which provided governmental control over the use of funds but did not increase budgetary revenues as such. As a result, in 2010 Tatiana Golikova, then the minister of Public Health and Social Development, achieved a return to the previous scheme of social taxation payments. After that, the unified social tax was divided into several different social payments managed by the Pension Fund and Social Insurance Fund independently from each other.\textsuperscript{43}

Preserving the Stabilization Fund became the government’s most difficult task. In 2006, the Investment Fund of the Russian Federation was established within the federal budget, and a certain amount of money from the Stabilization Fund was diverted to the Investment Fund. The new budgetary instrument was intended to accumulate financial resources to fund nationwide infrastructural projects. Soon, those resources were allocated to not only nationwide projects but also regional ones. In 2008, the Stabilization Fund was split into the Reserve Fund and the Fund for National Prosperity. The former performed the same functions as the Stabilization Fund, and the latter aimed to balance the budget of the Pension Fund of the Russian Federation.\textsuperscript{44} Although the use of the Stabilization Fund was of great help during the 2008–2009 economic crisis, it did not contribute to the country’s long-term development.

Finally, a side effect of successful tax reform was a major improvement in tax administration in Russia in the 2000s and 2010s. Tax officials who had to manage a limited number of clearly defined taxes and follow more transparent “rules of the game,” adjusted to new conditions better than many other state agencies. Although they still enjoyed great discretion in dealing with certain categories of taxpayers such as big state-owned companies or small businesses, the degree of arbitrariness largely decreased. Later, technological advancements (such as digitalization) also contributed to the better performance of state tax services. It is no wonder that the former head of the Federal Tax Service, Mikhail Mishustin, was promoted to the post of prime minister of Russia in January 2020.

However, even this success story was limited in scope. Another element of the reform initiated by Kudrin—the development of the principles of performance-based budgeting—did not achieve any significant results.\textsuperscript{45} The task of increasing the efficiency of public expenditures could not be resolved by the Ministry of Finance alone (even with presidential support). It required the efforts of several mid-and street-level bureaucrats and other participants in the budgetary process who would have to be suitably motivated and consent to shift their approach for effective use of budgetary spending. As with the case of administrative reform, there was a shortage of such officials in the state apparatus
and limited incentives for an advancement of reform among the top political leadership. As a result, this reform failed.

Implementing tax reform demonstrated that the institutional foundations of a success story of policy changes heavily depend on presidential support of a well-formulated policy program. Such a program needs to be conducted by an administratively strong and consolidated team of reformers who can disregard various pressure groups and push through reforms that do not involve lots of participants at the implementation stage. But this case also displays the unique array of factors necessary for policy success. The lack of even one of these factors would lead to the window of opportunity closing for that reform’s implementation.

_Educational Reform: Mixed Results_

In the 1990s, the Russian authorities made several attempts to reform Russian school education. Both the content of school education and the principles of educational governance urgently needed to change. The inefficient use of limited financial resources by the state officials responsible for school and higher education and the lack of an independent system of evaluation for schools and universities were the most important institutional obstacles to developing Russian education. Under these circumstances, the education managers were not interested in improving the quality of education. Secondary schools did not undergo external evaluations of their performance. Final school exams were conducted by the same teachers who taught the courses. To enter university, potential students needed to prepare for entrance exams in addition to taking their final school exams (and many parents paid fees to private teachers out of their own pockets). Most schools located in rural areas could not provide a decent quality of educational services. Educational mobility, even within Russia, was limited by significant costs. This reduced the level of competition for students between universities, especially at the regional level. Attempts to solve these problems in the 1990s faced a lack of funding from the federal budget and resistance from the conservative part of the professional community and political elite.

The fact that a program of educational reform was included in Strategy 2010 opened a window of political opportunity for the reformers. In 2001 the Ministry of Education launched the experiment of introducing the Unified State Exam (Edinyi gosudarstvennyi ekzamen, EGE) in certain Russian regions. This mechanism replaced the final examination procedures in secondary schools and combined them with entrance examination procedures in universities. It used a single set of written exams based upon a set of formalized tests. Their results
were reflected in final school certificates, while the universities accepted these scores for entrance examinations.

In 2002, as another experiment, the mechanism of state financial obligations to individuals (gosudarstvennye imennye finansovye obyazateli’svta, GIFO) was introduced, often called “educational vouchers” in the media. The idea was that after passing the Unified State Exam, a school graduate could be eligible to receive a certain amount of public funds for study at a university to cover tuition fees and provide stipends for living. The size of the state grant would depend on the Unified State Exam score, and the rest of the university’s fees should be covered by the students (or, rather, by their parents). This policy measure was designed to contribute to the targeted distribution of public finances among higher education institutions, increase competition between universities to attract the best school graduates, and stimulate a fee-paying model of higher education in Russia. Introducing this model also assumed that study loans would be available for students in the future, in addition to GIFO-based state grants.

The results of these reforms were ambiguous. The GIFO experiment lasted for only three years in a limited number of regions. Upon its negative evaluation by the professional community, the federal authorities abandoned its subsequent implementation and the GIFO mechanism was buried. The Unified State Exam experiment, on the other hand, covered more new regions every year and by 2008 became a nationwide examination. As a result, the State Duma had to amend the law on education in Russia to recognize the Unified State Exam as the only way to complete secondary school and take university entrance exams simultaneously. The opportunity to use the results of the Unified State Exam to apply for several universities at once dramatically increased competition for students in the university education system and improved educational mobility. Still, almost twenty years on, the Unified State Exam has not become recognized by Russian society as a legitimate way to evaluate students by either schools or universities. In the 2010s, Ministry of Education officials discussed the possibility of returning to the previous practice of final examinations in schools and proposed to increase the number of universities that would be able to use additional entrance exams, thus compromising the very idea of the reform. Public opinion of the Unified State Exam is also exceedingly critical.

The educational reforms could not be implemented by their initiators alone. They involved an unprecedented number of participants in the policy process, ranging from members of the State Duma and regional and local officials to university rectors, school directors, and teachers. The complexity of the reforms’ implementation and the resistance of numerous interest groups were
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quite significant. As a result, there was a serious risk of the reforms’ failure and a return to the previous status quo; in fact, this happened with the introduction of the GIFO. The Ministry of Education did not initiate this innovation: it was proposed by the experts from the Higher School of Economics who included this policy measure in Strategy 2010 program. However, it caused a furious reaction in the State Duma and was ultimately protested even more passionately than the Unified State Exam. The universities’ representatives were also against changing financial arrangements in higher education. As a result, the experiment was considered a failure and abandoned. At the same time, the ministry was interested in implementing the Unified State Exam and was able to overcome equally strong resistance to this innovation through step-by-step implementation of the reform. The experimental status of the new mechanism made it possible to develop and adjust new organizational and substantive arrangements of the examination and reduced the intensity of the debate over the reform, which had not yet been converted into a legal act and therefore, could theoretically be abandoned. When the experiment covered the entire country, its disparate opponents could not make the government and its loyalists in the State Duma prevent its legal formalization. As a result, the policy entrepreneurs from the Ministry of Education could implement this project while insulating the educational reform from the influence of interest groups.

Despite their social significance, educational reforms have never been attributed to Vladimir Putin. He has made several statements in support of Russian education but hardly considers this policy area a priority in his agenda. On the one hand, educational reforms cannot provide an immediate positive effect, regardless of results. On the other hand, Putin sought to keep a distance from the initiators of unpopular policy changes and from decisions made by officials at the ministerial level. At the same time, during the 2000s and 2010s the educational reform was implemented consistently and without significant changes in its content. This indicates that Putin and Medvedev supported these policy measures. In 2011, Andrey Fursenko, then the minister of education, suggested that the Unified State Exam should include only three disciplines—Russian, math, and one of the foreign languages—but President Medvedev rejected this suggestion: “Approaches to conducting the Unified State Exam have been determined, and the exam has proved a reasonable way of testing knowledge.”

The Unified State Exam’s major problems were to a certain degree caused by the misuse of its results by the government. The reformers initially saw the Unified State Exam as a means of external evaluation of the performance of schools and educational bureaucrats at the local level. But later, the Kremlin
used the results of the Unified State Exam as one of the criteria for assessing the performance of regional authorities. As a consequence, the exam scores of school graduates gained administrative and political status. This became one of the reasons for numerous violations during examinations: scandals occur frequently due to the regular leakage of tests and answer keys, the mass involvement of schoolteachers in illegally assisting pupils to pass the tests, and the dubious distribution of the best results among the Russian regions. Thus, scores in the republics of the North Caucasus, despite their notoriously low human capital, were higher than those in Moscow and Saint Petersburg. Only in 2014, when this indicator was removed from the list of indicators of performance of regional governors, did the number of scandals of that kind drop to nearly zero. The efforts of regional and local bureaucrats have been aimed not at increasing the quality of school education but at achieving high scores at any cost. In this way, the functions of the Unified State Exam have been diminished and its role has changed over time.

Nevertheless, the educational reforms can be considered an example of successful gradual and consistent implementation of new institutional arrangements. Initially, these initiatives were implemented as experiments concerning the approbation of new mechanisms in some regions. It was impossible to introduce the Unified State Exam in all Russian regions simultaneously due to both organizational and institutional constraints (lack of experience, high level of uncertainty of outcomes, and high cost of potential failure of the reform) and political ones (most politicians, professionals, and ordinary citizens did not accept the idea of an educational reform). The decision on the Unified State Exam was de facto adopted and implemented by the Ministry of Education. The legislative formalization of the Unified State Exam happened only in 2009, when the State Duma was under the full control of the presidential administration. At the same time, the same strategy contributed to the failure to implement the GIFO system, which could demonstrate reliable results only nationwide and not on the level of individual regions.

To summarize, the institutional changes in educational policy demonstrate the limits of presidential influence on implementing reforms. Even modest presidential support helps the adoption of major decisions and their implementation despite the resistance of various interest groups, especially if the reformers can preserve at least part of their proposals without major concessions to interest groups. But the performance of the mid-range and street-level bureaucracy can reduce the efficiency of implementing top-down ideas.
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Administrative Reform: from Bad to Worse

The administrative reform was aimed at solving the problem of inefficiency of public administration, which hindered the country’s social and economic development. By the end of the 1990s, a paradox of poor quality of governance was widely observed in Russia: formally, the government had many regulatory powers, but its performance was inefficient.\textsuperscript{55} The influence of big business on the adoption and implementation of many important policy decisions led to state capture.\textsuperscript{56} At the same time, entrenched state officials formed their clienteles, which included representatives of different businesses and other interest groups.\textsuperscript{57} The functions of ministries and state agencies often duplicated one another. The formation of Russian “bargaining federalism” in the 1990s generated politically motivated division of powers between federal and regional authorities.\textsuperscript{58} The decline of state capacity and state autonomy raised doubts about the federal government’s ability not only to implement any reforms but also to conduct routine daily governance.

Formally, the administrative reform was launched in 2003\textsuperscript{59} and officially continues even now. However, the most significant policy measures—(1) the revision of the functions of government agencies; (2) the revision of the so-called redundant functions of the government; (3) the redistribution of other functions between federal and subnational government agencies; and (4) major structural changes to the federal government—were implemented in 2003–2004.\textsuperscript{60} After that, the reform was focused on the technologies of improving government services provision, advancement of digitalization, and so forth, but no longer involved politically relevant changes.

In fact, the reform failed to contribute to improving public administration in Russia.\textsuperscript{61} The redistribution of powers between layers of government led to a recentralization of governance that more resembled a unitary state.\textsuperscript{62} The transformation of the federal government into three types of organizational entities (ministries, federal agencies, and federal services) and the revision of their powers did not contribute to transparent and efficient governance but rather complicated the interactions between the governmental agencies that were responsible for the same policy areas.\textsuperscript{63} The only meaningful outcome achieved by these policy changes was a significant increase in the officials’ salaries and quantity of civil servants, while the quality of personnel and the motivation of officials, which had been heavily criticized,\textsuperscript{64} did not change in practice. Major elements of the reform, such as accountability of public servants, transparency of state
agencies and bureaucratic procedures, merit-based recruitment and promotion of state officials, and the like, remain merely on paper. Thus, despite several technological innovations in the everyday practices of interactions between bureaucrats, business people and ordinary citizens, the quality of public services has not much improved. Moreover, in many instances it has become even worse. But why were the results of administrative reform so poor?

One might argue that the administrative reform was on the periphery of presidential attention. Initially, the development of this reform was one of the key items for the Center for Strategic Research. Later, this reform became a priority for the government and the presidential administration. In his annual address to the parliament, Putin paid specific attention to it. In 2003, admitting significant problems in achieving the policy goals, he even promised to provide “needed political impetus” for more active policy in this area. However, Putin did not take the most important step: he did not provide any organizational support for the planned reform. All basic policy measures in this area were coordinated by the governmental Commission for Administrative Reform, which was headed by one of the deputy prime ministers ex officio and worked on an ad hoc basis. Thus, the impact of this coordination center on policy changes was relatively low. In addition, this commission did not possess enough powers to implement reforms; its role was limited to policy proposals. Its scope was restricted to proposing changes in the structure of the government and in the functions of different kinds of governmental agencies. The reform of public service, changes in its personnel, and the revision of other major regulations were delegated to the Commission for Reforming Public Service, headed by Dmitry Medvedev (at that time, the first deputy head of the Presidential Administration). The members of that commission took a conservative approach to reforming public service in Russia. As a result, the policy reform was organizationally divided and full of internal contradictions. All attempts to strengthen the influence of the Commission for Administrative Reform or establish a new strong organization in charge of this reform have failed. For example, in 2004, the Ministry of Finance blocked the adoption of a federal program that could have provided financial resources to implement the administrative reform. At the same time, the proposal to establish an agency in charge of implementation of the reform and allocation of funds was rejected. The implementation of the Conception of the Administrative Reform in 2006–2008 was delegated to the heads of the governmental agencies: in other words, Russian public service had to be reformed by the officials themselves although they were not interested in challenging the status quo and did not have any incentives to implement the reform program.
Opportunities and Constraints

It is no wonder that the administrative reform greatly contributed to the major rise in quantity of state officials: according to the official data of the Russian State Statistical Committee, while in 2001 their numbers counted to 1,140,600 persons, by 2009 these numbers increased up to 1,674,800 persons (mostly due to reorganizing state agencies and a major increase in the scope of their regulatory functions). In addition, the failure of administrative reform sent a strong signal to Russian elites and society at large that despite the loud rhetoric, the top leadership in Russia was not interested in improving the quality of governance.

The administrative reform aimed at the debureaucratization of the Russian economy and the stimulation of business development coincided with a “statist turn” in Russian economic policy. Since 2004, the promotion of private businesses as major drivers of Russian economy has been replaced by building major state conglomerates in key sectors, ranging from Rosneft and Gazprom to Russian Railways (briefly described in chapter 2). These changes provide contradictory incentives to administrative reform: although state agencies abandoned some of their redundant functions, they also increased their encroachment into the economy by toughening governmental regulations and increasing the regulatory burden on businesses and the noncommercial sector. Thus, a set of measures—for instance, the division of labor between the ministries responsible for policy development and decision-making, the federal services in charge of implementing these decisions, and the federal agencies that provide public services and manage federal property—would lead to an increase in the number of state officials, but it could not improve the quality of governance, instead leading to a major decline. Figures 1 through 4 clearly illustrate such a tendency: in the second half of the 2000s, World Bank’s indicators for the rule of law, control of corruption, and regulatory quality in Russia demonstrated a major deterioration. When the shift to the “predatory state” model of state-business relations occurred in Russia during this period, the administrative reform was no longer needed.

One important obstacle to the success of the administrative reform was its long implementation period. Putin had lost interest in this policy area by 2005. Those experts who had initiated the reform were replaced in the Commission for Administrative Reform by the other group of state officials. Finally, the substance of the reform itself was reduced to interminable preparation of new administrative regulations and to making new arrangements for state agencies’ online services. At the same time, transparency and debureaucratization of decision-making itself were no longer considered important features of public administration and civil service.
In conclusion, the failure of the administrative reform resulted from the following factors:

1. The lack of drivers of reform, that is, leaders who would have enough will and power to implement key decisions despite resistance from major interest groups;
2. Dispersed responsibility among state officials and the lack of a politically and administratively strong team who would coordinate the actions of various governmental agencies, which led to inefficiency of reform implementation; and
3. Protracted policy changes and the lack of short-term achievements, which decreased presidential interest in this sphere of reform.

As a result, the administrative reform’s goals were not achieved, and the quality of state governance and public administration went from bad to worse.

Why Are Reforms (Im)possible?: Social Benefits, Police, Military, and Beyond

The logic behind Russian policy reforms analyzed above is summarized in table 4. Although the cases outlined above obviously do not cover the entire scope of policy reforms implemented by the Russian government within the framework of authoritarian modernization, one can trace the influence of the same factors on policy changes in other areas.

The reform of social benefits implemented in 2004–2005 was not a major priority for the government but was considered a by-product of the redistribution of powers and responsibilities between the federal government and the regions. It ultimately failed due to errors in the budgeting process and inefficient coordination of government agencies at the federal and regional levels. The amount of funds necessary to effectively implement reform proposals was not provided, and the federal authorities put the burden of conducting the reform onto the shoulders of regional governments without designating budgetary transfers that could cover extra costs. This reform contributed to public discontent and to protest rallies in several cities and led to the declining electoral performance of United Russia at the regional elections in spring 2005. As a result, the federal government had to cover significant expenditures, which were much higher than was initially planned. It is no wonder that after this failure, the president and the government argued against implementing any new reforms, including policy changes in other areas: further reforms were shelved, and the very term “reforms” became a taboo in the discourse of state officials. Political and institutional
### Table 4. Features and Outcomes of Policy Reforms in Russia in the 2000s

<table>
<thead>
<tr>
<th>Feature</th>
<th>Tax Reform</th>
<th>Educational Reform</th>
<th>Administrative Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>strategic priority of reform for the political leadership</td>
<td>high</td>
<td>relatively low</td>
<td>initially high, but later low</td>
</tr>
<tr>
<td>key agents of the reform</td>
<td>ministers of finance and economic development and their teams</td>
<td>officials in the Ministry of Education</td>
<td>numerous officials in the government and the presidential administration</td>
</tr>
<tr>
<td>concentration of agents of the reform during policy adoption and implementation</td>
<td>high</td>
<td>low</td>
<td>low</td>
</tr>
<tr>
<td>resistance from interest groups</td>
<td>strong (in some areas), but not coordinated</td>
<td>strong (in all areas), but not coordinated</td>
<td>strong (in all areas)</td>
</tr>
<tr>
<td>insulation of reformers from opponents’ influence</td>
<td>high (due to presidential support)</td>
<td>limited in some areas; self-insulation in the case of the Unified State Exam experiment</td>
<td>none – the reform was implemented by the major interest groups (the officials) themselves</td>
</tr>
<tr>
<td>process of adoption and implementation of policy changes</td>
<td>single-stage; major decisions were adopted and implemented quickly</td>
<td>multi-stage; major decisions were adopted quickly but implemented over many years</td>
<td>multi-stage; major decisions were made and implemented over many years</td>
</tr>
<tr>
<td>outcomes of the reform</td>
<td>rapid and positive effects that legitimizd reforms</td>
<td>non-immediate and ambiguous effects</td>
<td>insignificant effects</td>
</tr>
<tr>
<td>impact of the reform</td>
<td>reduction of the tax burden, stimulation of economic growth, increase of fiscal revenues to the state budget</td>
<td>standardizing a system of evaluation of school graduates (despite numerous defects)</td>
<td>increasing number of officials and rise in their salaries</td>
</tr>
<tr>
<td>overall assessment of the reform</td>
<td>(incomplete) success</td>
<td>Unified State Exam - success, GIFO - failure</td>
<td>failure</td>
</tr>
</tbody>
</table>
factors affected the outcome of this reform, alongside technical ones. Although the insulation of the government from interest groups often makes it possible to initiate certain policy changes, it can also aggravate the risk of major policy failures due to inefficient institutional design and/or poor quality of policy implementation.

An even more vivid example of unsuccessful policy change was the police reform initiated under Dmitry Medvedev’s presidency, as convincingly analyzed by Brian Taylor.\footnote{76} Even though the development of the rule of law and the creation of efficient law enforcement agencies were declared by Medvedev to be his main priorities, the launch of the police reform in 2009 did not bring about any significant effects. This failure was caused, on the one hand, by resistance from influential siloviki in the presidential administration and in the government, and on the other hand by Medvedev’s inability to build a successful pro-reform coalition among non-siloviki officials. The development and implementation of the police reform (including the reduction in the number of law enforcers, personnel changes, and a structural reorganization of agencies) were performed by Ministry of the Interior officials who were the least interested actors when it came to genuine change. Public discussion initiated by the president and his supporters was nominal; alternative proposals were not discussed at all. As a result, the only visible effect of the reform was the change of the title militsiya to politsiya (police). The numerous reshufflings among the midlevel officials were insignificant, and soon after its start, the reform came to a halt.

In addition, the failure of the police reform demonstrates that policies implemented by an entrenched bureaucracy do not allow for provision of incentives for real change, but often support the status quo. The “new” police remained an agency oriented around presenting appropriate statistical reports irrespective of the real situation regarding crime.\footnote{77} The reform of healthcare demonstrates similar tendencies, with a two-fold increase in financial support in the second half of the 2000s failing to lead to improved quality of healthcare services.\footnote{78} Although pressure from policy entrepreneurs in some areas (such as the educational reforms) has sometimes contributed to institutional changes, their effects are only partial due to resistance from interest groups and a series of organizational problems. The step-by-step process of implementing certain reforms makes policy changes even more complicated.

Yet not all policy reforms in Russia were doomed to fail. The Russian military analyst Alexander Golts has presented a vivid example of policy advancement in a rather unlikely environment in his perceptive account of successful military reform in Russia in 2008–2012.\footnote{79} After a series of replacements of top officials who had done little to restructure the post–Soviet army and attempted to preserve
the previous (oversized, inefficient, and costly) status quo in the governance and performance of the Russian military, in 2007 Putin surprisingly appointed Anatoly Serdyukov, then a son-in-law of then prime minister Viktor Zubkov, to be the new minister of defense. His tenure began with the episode of the Russian military conflict with Georgia in August 2008 known as the Five-Day War. This conflict demonstrated that the Russian army was not properly prepared for major ground operations due to technological obsolescence and poor management and personnel quality. In a sense, even though the Five-Day War has been perceived as a Russian victory, this experience became a major exogenous shock that paved the way to serious reorganization of the military. Serdyukov came to the right job at the right time. He received carte blanche for many actions: he laid off many generals and officers (overall, almost two hundred thousand personnel were cut), reorganized divisions and battalions, restructured the chain of command to make it more modern and efficient, and greatly diminished the number of conscripts in favor of professional military personnel (kontraktniki). All of this had been unthinkable for many reformers after the Soviet collapse, but the political will and patronage of the leadership alongside perceptions of the urgent necessity of policy reforms served as major arguments for Serdyukov. To some extent, Serdyukov was able to achieve his goals despite fierce resistance from the military bureaucracy and its numerous lobbyists. However, his reform plans also included the outsourcing of many non-essential services previously performed by the military itself (ranging from construction to catering) away from the insiders of the Ministry of Defense and into the hands of external contractors. He also attempted to review the practices of state procurement for the military to combat overpricing arms and equipment. Such bold moves would inevitably mean a major redistribution of rents and hurt the vital interests of many powerful interest groups. It is no surprise that in 2012 Serdyukov fell victim to a major scandal: an investigation against him was opened amid accusations of adultery with his mistress, Evgeniya Vasilyeva who headed a major department in the ministry. Serdyukov was fired, and his criminal case was closed after a lengthy procedure. Nevertheless, the military reform brought significant fruits, greatly contributing to the more efficient performance of the Russian army during the annexation of Crimea in 2014 and military adventures in Syria since 2015. Some of Serdyukov’s reforms, however, were weakened after he was replaced by Putin’s long-term associate Sergey Shoigu.

In general, are successful reforms possible within the framework of the authoritarian modernization project? A positive answer should be heavily marked with serious caveats. If a certain reform is the top political priority of a strong and authoritative head of state, if a coherent team of reformers can be insulated from
the major interest groups, and if the team implements consistent policy changes quickly and they bring immediate positive results, then this reform is possible even under conditions of poor quality of governance and inefficient institutional design. This combination of favorable conditions is quite rare, and this is why the success story of tax and budgetary reforms in the 2000s remains an exception. But the insulation of reformers from the influence of interest groups as such does not ensure the quality of policy proposals and their implementation: the costs of errors may increase. In addition, authoritarian modernization projects are often implemented by officials who are not interested in policy changes and have little, if any, incentive to promote them. Finally, the failure of some policy reforms can challenge the whole project of authoritarian modernization by undermining the president’s incentive to continue major changes. It is unsurprising that after the failure of the “monetization of social benefits,” the notion of reform became taboo among the Russian leadership. Later on, reforms were replaced by “national projects,” which proposed only an increase in financing without significant structural changes. When Putin returned to the presidential post in 2012, new rounds of large-scale socioeconomic reforms were not discussed, and after the 2014 annexation of Crimea they faded away from Russia’s agenda.

From a broad perspective, the Russian experience of authoritarian modernization, as represented in the wake of policy reforms in the 2000s, demonstrates that political leaders, even those who are interested in implementing policy changes, cannot repeat the experience of successful dictators. Those who relied upon an inefficient bureaucracy as the basis of their own winning coalitions are rarely ready to risk a potential political imbalance in the name of possible developmental success. Therefore, their reform strategy is often inconsistent, and the incentives to preserve the status quo are often overwhelming. In the best case, authoritarian modernization can result in a set of temporary and partial policy measures, which may at best bring only partial success in terms of the quality of governance. In the worst case, it turns into a demagogical smokescreen for the preservation of authoritarian power. As one can see, this was the case with the Russian experience in the early twenty-first century: the initial efforts of policy reforms that launched soon after 2000 later turned into words without deeds against the background of aggravation of authoritarian trends in the country. Yet there are no guarantees that possible democratization would create favorable conditions for socioeconomic reforms either; rather, it would provide new challenges. Still, I would argue that there is no reason to believe that policy reforms under the conditions of an electoral authoritarian regime and poor quality of the state can bring great fruits of improved governance in Russia and elsewhere.