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Organized business, political regimes and property rights across the Russian Federation

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William Pyle*

Organized business, political regimes and property rights across the Russian Federation[1]

Abstract

Abstract: This article explores the inter-relationship of collective action within the business community, the nature of the political regime and the security of firms' property rights. Drawing on a pair of surveys recently administered in Russia, we present evidence that post-communist business associations have begun to coordinate business influence over state actors in a manner that is sensitive to regional politics. A firm's ability to defend itself from government predation and to shape its institutional environment as well as its propensity to invest in physical capital are strongly related to both its membership in a business association and the level of democratization in its region. Of particular note, the positive effect of association membership on securing property rights increases in less democratic regions. The evidence, that is, suggests that collective action in the business community substitutes for democratic pressure in constraining public officials.

Key words: collective action, property rights, political institutions, business associations
JEL codes: D7, K4, P48

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William Pyle

Organized business, political regimes and property rights across the Russian Federation

Tiivistelmä

Tässä tutkimuksessa käsitellään yritysten, poliittisen järjestelmän ja omistusoikeuksien turvallisuuden vaikutuksia toisiinsa. Työssä käytetään kahta äskettäin Venäjällä tehtyä kyselytutkimusta ja havaitaan, että siirtymätalouksissa elinkeinoelämän järjestöt ovat ryhtyneet vaikuttamaan poliittiseen päätöksentekoon. Tämän vaikuttamisen luonne riippuu kuitenkin kunkin alueen poliittisesta järjestelmästä. Yrityksen mahdollisuuksia puolustautua julkisen vallan haitalliselta toiminnalta sekä investoida enemmän edistävät selvästi jäsenyys jossakin liike-elämän järjestössä ja toiminta-alueen demokraattisuus. On erityisesti huomattava, että järjestöjen jäsenyyden positiivinen vaikutus on voimakkaampi vähemmän demokraattisilla alueilla. Näyttää siis siltä, että elinkeinoelämän yhteistoiminta on substituutti demokraattiselle painostukselle julkisen vallan toiminnan rajoitteena.

Asiasanat: yhteistoiminta, omistusoikeus, poliittiset instituutiot, elinkeinoelämän järjestöt

1 Introduction

Much of the literature on transition-era political economy portrays firms as actors whose interactions with state officials occur largely independent of one another. Whether suffering from bureaucratic predation, capturing the organs of state power, or cooperating with government officials to mitigate external pressures, post-communist firms have been viewed largely as acting alone rather than in concert with one another. Though the business community – or at least significant subsets of it – constitutes a true community in the sense of its individual members sharing interests, little attention has been given to how those interests have been shaped and pursued by organizations for collective action. This article seeks to address this imbalance. Drawing on two surveys conducted in Russia, we present evidence that post-communist business associations help secure the property rights of their members. Standing as evidence of a nascent, post-communist civil society, these organizations appear to boost some firms' capacity both to resist the state's "grabbing hand" and to guide the design of new rules and regulations.

This article also addresses the broader question of the relationship between political regimes and property rights. By exploiting the variation in electoral competition across Russia's territorial subjects, we show that in more democratic regions firms are less vulnerable to the caprice and predatory behavior of state officials. Firms in these regions, that is, appear better able to thwart corruption and to influence the evolution of formal economic institutions. Both direct and indirect causal mechanisms appear to be at work. The greater security of property observed in more democratic settings is consistent with electoral pressures serving as a direct constraint on state power. Political openness, moreover, by promoting collective action, indirectly increases business' capacity to strengthen property rights.

Of particular note, we observe an interesting interaction between political regimes and organized business' role in securing property rights. Although business associations are growing fastest in the more democratic regions, the marginal effect of membership appears to be less in these regions. Although property rights are more secure, on average, for all firms in more democratic settings, they are more secure only for the subset of firms that organize in less democratic settings. This suggests that collective action in the business community acts as a substitute for broader democratic pressures in constraining state threats to property.

In general terms, the story presented here is consistent with a familiar causal framework. The distribution of political power shapes economic institutions that, in turn, structure incentives at the firm-level to engage (or not) in productive behavior. When political forces compel public officials both to limit predatory behavior and grant non-state actors a voice in designing rules and regulations, the economic environment becomes more predictable. The relationship between effort and reward becomes clearer. And the incentives to invest become stronger.

We contribute to this narrative by considering collective action's role in a manner unique to the literature that follows in this tradition. Thematically, the article resembles the work of Mancur Olson and his co-authors. The connection they highlight between political competition and stronger property rights is echoed here as is Olson's recognition that more open politics potentially affects property rights by way of collective action. But whereas Olson regarded the organizations that democracy fosters as threats to economic development, our evidence suggests otherwise. When state actors render property rights insecure, business' motivation for organizing may be more benign than Olson suspected. Indeed, in these circumstances, the threat posed by the state may motivate collective action as much or more than narrow rent-seeking.

The article is organized as follows. Section 2 reviews literature on how the distribution of political power in a society affects the provision of property rights' protections. Section 3 discusses the history of collective action in the Russian business community and introduces the surveys used in the subsequent analysis. Section 4 then explores the firm-level and regional determinants of business association membership, giving particular attention to the role played by political regimes. Section 5 introduces two firm-specific "property rights" variables and highlights their relationship to association membership, regional political competition and their interaction. It also demonstrates that similar relationships hold between these variables and a measure of recent investment activity by the firms. Section 6 presents conclusions and implications.

2 Political power and property rights

Folowing Acemoglu *et al*. (2004), we presume the distribution of political power in a society to be a function of both formal political institutions and the ability of social groups to solve the collective action problem and organize. Political institutions, which constitute the rules governing politics – including the "form of government, for example, democracy vs. dictatorship…and the extent of constraints on politicians and political elites (390-91)" – serve as the basis of *de jure* political power. Successful social coordination and the subsequent aggregation of resources can constitute an additional source of *de facto* political power.

Together, the two determine a society's prevailing economic institutions, including most importantly, the structure of its property rights. By way of an example germane to the themes here, Acemoglu *et al.* (2004) highlight Robert Bates' research on the variation in agricultural policies across the developing world. In many African and Latin American countries, Bates describes how property rights have been abused by marketing boards paying below-market prices for crops as a measure to divert resources from farmers to urban constituents. He offers the Columbian coffee sector as a noteworthy exception (1997). Even though its producers were small and not organized, they did not have to confront confiscatory policies because "the structure of political institutions, and in particular the structure of party competition, rendered them pivotal, giving them power over the political fortunes of those with ambition for office (51)…" In Kenya, successful collective action, in the form of the Kenya National Farmer's Union's lobbying efforts, produced policies that were similarly respectful of property rights (1981).

2.1 Political regimes

Although arguments that politics affect property rights are not uncommon, there is neither a consensus as to how they do so, nor is there a great deal of contemporary evidence that demonstrates a link. Drawing on historical evidence, North (1990) connects the spread of democratic freedoms to the evolution of more secure property rights. Democracy, he argues, not only enhances the voice of those bearing the burden of socially detrimental policies, such as the under-provision of property rights' protections, it "eliminates the capricious capacity of a ruler to confiscate wealth (51)." Citing growth patterns of European cities between 1050 and 1800, De Long and Shleifer (1993) make a similar point. "Absolut-

ist" princes, they argue, presided over slower growth because they taxed to maximize own revenue; less autocratic governments, more responsive to social pressures, had to be more concerned with private economic prosperity and thus tended to be more respectful of property rights.

Olson (1993), perhaps, lays out the political incentives of democratic majorities and autocrats most clearly:

> Though both the majority and the autocrat have an encompassing interest in the society because they control tax collections, the majority in addition earns a significant share of the market income of the society, and this gives it a more encompassing interest in the productivity of the society … Democratic political competition, even when it works very badly, does not give the leader of the government the incentive that an autocrat has to extract the maximum attainable social surplus … (570-71)

Political leaders in more democratic settings, in other words, have a stronger self-interest in promoting "good" economic institutions. Olson and co-authors show with recent data that measures of autocracy at the country level are negatively and strongly correlated with several proxies for property rights' protections (Clague et al., 1996). They conclude that democratic freedoms and property rights spring from the same institutions and are complementary: a "democracy without any property rights … is not in the feasible set (245)."

Not all agree, however, that the major threat to property rights resides in an unconstrained sovereign. As Przeworski and Limongi (1991) note, nineteenth century conservatives and socialists alike believed that widespread suffrage and freedom of association would empower the dispossessed, threatening the propertied classes. Moreover, they point out that if democracy promotes greater property rights' security, a clear correlation between regime types and economic growth across countries should be observed. Evidence on this score, however, has been at best mixed.

2.2 Social coordination

Ironically, Olson (1982, 1997, 2000) also plays up the possibility that non-state actors may threaten property rights in democratic settings. The same forces which facilitate capital accumulation by constraining political power also, over the longer term, enable collective action for the purposes of redistribution. A small group of firms, for instance, may organize so as to capture the political process and orchestrate a diversion of resources in its favor. Olson, however, may be a bit too quick both to assume the worst about collective ac-

tion in democratic settings and to suggest that the less benign version of collective action is any more likely in democratic settings than under other regime types. Although firms in more democratic settings, almost by definition, confront lower costs of organizing, it is unclear whether the benefits of associational activities rise or fall as political competitive changes. Compared to public officials in more competitive settings, those operating where democratic pressures are particularly weak may be more sensitive to the voices of special interests intent on pushing policies that subvert the general interest. Finer (1997) and Damaska (1986), for instance, in noting how small, well-organized elites can endanger development objectives, argue that the power of these groups is more likely to be problematic in politically less competitive settings. Narrowly-focused interest groups, that is, are apt to wield more influence when constraints on executive authority are minimal.

Not all scholars share these suspicions of social coordination. Putnam (1993), notably, views civil society groups as broadly supportive of democratic and development objectives. The association of individual actors with divergent interests tends to moderate social divisions and contribute to collaborative advocacy for broad social interests. Weingast (1997) makes the connection between social coordination and property rights' protection more explicit. He argues that property rights become secure for a broad cross-section of economic actors when social groups have mechanisms by which to coordinate their response to any infringement of property rights by a sovereign. Only in the presence of such mechanisms is it in the sovereign's self interest to respect limits on his behavior.

Similar themes have been picked up on in studies devoted specifically to business community coordination. Some have argued that businesses acting in concert with one another are more apt to push for the provision of public goods than businesses acting alone (Lambsdorff, 2002). Direct, individualized lobbying tends to result in private benefits for the lobbying party as well, potentially, as government officials at the expense of other firms. The efforts of business organizations, however, may be less distortionary in that they are more apt to reflect a broader array of interests. Indeed, recent research suggests that corruption and formalized lobbying are substitutes, with the supplanting of the former by the latter being correlated with higher levels of economic development (Campos and Giovannoni, 2007; Harstad and Svensson, 2006). Doner and Schneider (2000), moreover, present evidence that business associations play an important roll in mitigating the types of state failures that can be particularly acute in developing countries. By both diminishing free rider problems and aggregating political power, business associations are more apt

than individual firms to push for and realize welfare-enhancing improvements in public administration and stronger guarantees of property rights. Schneider (2004), however, is agnostic as to whether these public-good-like benefits from business coordination are more or less apparent in democratic settings.

2.3 Business' power during the transition

Scholarship on the post-communist transition has given nascent business organizations short shrift when considering how firms pursue interests *vis a vis* the state. In most treatments, this disregard is implicit. Firms, that is, are portrayed almost exclusively as engaging in personalized exchanges with government officials. For instance, Hellman *et al.* (2003) focus on the firm-specific correlates of "influencing" or "capturing" state officials. "Captor firms," which make payments to public officials to secure favorable policies), report improvements in the security of their property rights, particularly in environments in which other firms also strike similar deals. The authors disregard the roll of associational membership on firm strategies and performance even though they had collected such data. Other analyses have more explicitly considered the role of business associations but concluded that collective action problems have minimized their significance (Gelbach, 2006).

There are several noteworthy exceptions to this general trend. On the basis of Russian survey data, Frye (2002, 2004) shows that of those firms reporting at least some success in influencing new laws and regulations at the federal level, half reported having used the services of business organizations. He also demonstrates a strong correlation between association membership and a firm's propensity to invest. Campos and Giovannoni (2007) draw on the same cross-country dataset as Hellman *et al.* (2003) and Gelbach (2006) to show that lobby membership is positively related to firms' self-reported influence on officials in the legislative and executive branches. And Duvanova (forthcoming), utilizing the same data, demonstrates a strong correlation between firms' perception of bureaucratic corruption and business association membership. In the same article, she presents convincing case study evidence from Russia of a causal link between corruption and subsequent business association development.

2.4 Summary

The literature review to this point serves as an introduction to the questions that are central to this paper. In broad terms, the interest here lies in the relationship between the distribution of political power and the security of property rights. As noted, political power is taken to be a function of both formal political institutions – *i.e.*, regime type – and successful collective action within the business community. For one, we explore the independent effects of both regime type and collective action on property rights. Do firms appear to be more secure in their property rights, *ceteris paribus*, in (a) more democratic settings and (b) as members of collective action associations? The existing literature speaks to these questions but not with a single voice. We are also interested in the largely unexplored question of the inter-relationship between collective action and political institutions. To this end, we explore the relationship between regime type and association growth as well as the marginal (property rights) effect of membership in more and less democratic settings.

3 Russian business associations and survey data

3.1 History of Russian associations during the transition period

Many of the first Russian associations grew up to promote interests of small private initiatives that were permitted during the late Soviet period.[2] Others that date back to this era were organized by large state enterprises that shared an interest in preserving inter-firm ties and access to state subsidies as the mechanisms of centralized economic coordination evaporated. Some associations were established from the top down by ministry officials as their own hedge against the uncertainty of the future (Lehmbruch, 1999). And still others probably served as fronts for corrupt or profit-motivated ventures. Generally speaking, these first associations were neither well organized nor transparent in purpose (Sulakshin and Romanikhin, 2003). Two noteworthy exceptions include the two associations that to this day remain the most developed and influential, the Russian Union of Industrialists and Entrepreneurs (*RSPP*) and the Chambers of Commerce and Industry (*TPP*).

[2] Much of this section draws on the narrative in Pyle (2006a).

RSPP first developed as a powerful alliance of Soviet-era enterprise directors that in the initial stages of the reform era lobbied for the retention of many price controls, continued access to state subsidies and strict limits on foreign investment (McFaul, 1993; Hanson and Teague, 2005). By the mid- to late-1990s, it had developed a network of affiliated associations to provide information as well as consulting, legal and accounting services to members throughout the country. And at the federal level, its "expert" institute actively participated in the drafting of the state's economic programs and was consulted on bills before the Duma. After the 1998 financial crisis, its federal-level organization adopted a more pro-market orientation. Almost no attention has been given to the activities of its legally independent affiliates in territorial subjects throughout the Russian Federation.

Like the affiliates of *RSPP*, the Chambers of Commerce and Industry (*TPP*), which are operated independently in each of Russia's 87 territorial subjects, draws their membership from many different sectors of the economy. Regulated through a special 1993 law that guarantees their independence from state bodies, the *TPP* network traces its roots to a communist-era institution that promoted commercial ties with the non-communist bloc. Compared to the *RSPP*, it has generally maintained a lower political profile and has focused more on service provision to members. As with the *RSPP*, relatively little has been written of its activities, particularly those of the 170-plus independent Chambers that operate at the regional and municipal levels.

The reforms of the 1990s also gave rise to a wave of national-level, sector-specific organizations as well as a number of multi-sector and sector-specific organizations that operate at the regional and municipal levels. Although the lack of a comprehensive registry has rendered an accurate accounting of their numbers impossible, one recent estimate puts the numbers of business associations nationally at close to five thousand.[3]

3.2 Surveys of Russian associations and firms

In light of the lack of comprehensive sources of information about their political (and economic) activities and influence, three separate surveys were administered by the author in 2003 and 2004. First, to assess membership rates by firm size and sector, a simple screening survey of over 1300 enterprises was carried out in 48 territorial subjects of the Russian

[3] July 2005 interview in Moscow with director of the department for cooperation with business associations at the chamber of commerce of the Russian Federation.

Federation.[4] The findings were then used to construct a sample for a more detailed survey of 606 firms. An effort was made to achieve roughly equal distribution across both industries and the regions sampled. By construction, roughly half of the firms were to be members of associations [see map of regional distribution]. The screening survey's findings of membership rate variation across branches and employment size were used to weight the sample's distribution of members and non-members across these two dimensions.

In addition to standard firm-specific information, the survey asked firm managers a series of questions about their interaction with business associations. Some of these association-specific questions were directed at all firms and some were only designed to be answered by members of associations. This latter group included a series of questions about the two associations most important to the enterprise. Of the 280 (or 46.2%) firms in the survey that belonged to at least one association, 88 belonged to at least two. Using the information provided on these 366 memberships, we calculated the share of firms in the sample that belong to associations of different types. As can be seen in Table 1, 39.4% of firms in the full sample belong to at least one regional association (*i.e.*, one whose membership is derived almost exclusively from a single territorial subject), whereas only 9.6% belong to a federal or multi-regional association. Of firms that belong to regional associations, the overwhelming majority belong to multi-sector associations. Finally, we see that roughly equal numbers joined the regional associations before and after 1998, the final full year of the Yeltsin administration and the last year of the country's prolonged period of economic decline.

A third survey was administered to the directors of two hundred independent business associations. In the absence of an official registry, a variety of sources were used to construct a sample of active associations that we feel is broadly representative in terms of regional distribution, the mix between sector-specific and multi-sector associations and the importance of RSPP affiliates and the TPP network. Among this group, 145 associations were "regional" in the sense of drawing their membership almost exclusively from a single region.

Because we exploit regional variation to understand the inter-relationship among political regimes, property rights and collective action, we are interested less in the role of

[4] For more information on the construction of the samples as well as summary data from the screening survey, see Pyle (2006a).

federal-level business associations than those that operate on a regional level. In Table 2, we present summary data on the members and non-members of these regional associations. With the exception of average firm size, the differences between the two populations of firms are not terribly striking. Clearly, however, members of regional associations tend to be larger than non-members, a finding that is mirrored elsewhere in the world and is consistent with larger firms having a greater capacity both to absorb membership dues and to influence the activities of the associations they join.[5]

A rough sense of how flows into regional associations have changed across time can be gleaned from the years in which our surveyed firms report having joined. As we can see in Table 3, a small minority reports having entered their regional associations in the Soviet era. After 1992, entry has been steady but seems to have picked up after the period of economic decline that ended in 1998. Indeed, the biggest spike in membership occurs during Putin's first years in office, a period that corresponds with a rapid acceleration in economic growth. Table 3 also provides information on the founding dates of the associations in our sample that operate at the regional level. Roughly half were established in 1995 or before; roughly half were established afterwards.

3.3 Association services

Business associations the world over engage in a wide range of activities. Like many of the organizations that populate civil society, their functions can be divided along two dimensions. First, they help develop and strengthen "horizontal" ties among non-state actors. Perhaps most notably, they contribute to the provision of a public good by facilitating inter-firm information flows on the reliability of potential customers and suppliers (Pyle, 2005), as well as on new technologies and market opportunities. They also may assist, either directly or indirectly, in the resolution of inter-firm disputes (Pyle, 2006b). Business associations can also be instrumental in the "vertical" relationship between the business community and state actors. They may aggregate and transmit business interests to state bodies as well as protect the communities that they represent from abuses of state power.

[5] Of those that were not members of associations, roughly 10% cited the membership fees and 20% cited the time demands as a reason for not joining. Golikova (2007) also finds from even more recent survey evidence in Russia that larger firms are more apt to be members of an association.

Indeed, our survey data show that many regional associations report offering, and many members report receiving, both types of services.

In Table 4, we report on three of the distinct vertical services addressed in the surveys: lobbying government officials, participating in the legislative process and protection from illegitimate government interference. The managers of both firms and the associations were asked to consider the importance of each of these services. The members of regional associations were asked to evaluate how critical the services were to the development and well-being of their enterprise on a scale from 0 to 5.[6] Table 4 reports the percentage of those member firms that assessed the service's importance as a 4 or 5. Smaller members, perhaps unsurprisingly, place more value on the protection received from illegitimate government interference.

We also categorize member firms by the year in which they joined a regional association. Using 1998 as the dividing point, we observe that the most noteworthy difference between firms that joined earlier and those that joined later is in the value given to participating in the legislative process. Specifically, those that report joining more recently receive greater value from the association's ability to providing them access to the legislative process.

In the last two columns, we provide the assessments of business association managers as to these same services. They were asked, as well, to assess on a scale from 0 to 5 the "importance" of the service to their association both at the time of their founding and when the survey was administered. As with the firms' managers, we record the percentage of respondents who answered with a 4 or 5. We first note that relative to the managers of member firms, the managers of the associations attach greater importance to the vertical functions. But this difference need not be a surprise. It is possible, of course, that association managers possess an exaggerated sense of their organization's importance. But it may also be the case that they have a fuller understanding of their services' value, particularly if they are provided directly by association personnel directly. Another noteworthy feature of Table 4's data is the reported increase in "participation in the legislative process." In the year in which the associations were founded, this function was easily the least important on this list. But by 2004, it ranked just behind lobbying as the most important. This jump and

[6] A "0" denotes the association to which the firm belongs does not offer the service; a "1" denotes that the association offers the service but it makes "no impact" on the firm's well-being; a "5" denotes that the service has an "extremely large" impact on the firm's well-being.

the comparative data on firms joining before and after 1998 point to a growing formalization of business associations' role in the legislative process.[7]

4 Determinants of membership

Unlike in some continental European countries, business association membership in Russia is voluntary. Provided that firms pay required dues, the survey evidence suggests that there are few, if any, barriers to joining and retaining membership.[8] For instance, we found little evidence that associations are exclusive clubs. Only one (of 326) non-members in our survey reported having been denied admission to a business association. And of current members, only one-sixth reported knowing of an instance in which their association had expelled a member. Most of these cases related to financial issues (*e.g.*, not paying dues), while a smaller number stemmed from a member's violations of established behavioral norms.

If membership is largely a matter of choice, it is worth considering the factors that influence a firm's decision. We thus set up a probit model in which the dependent variable is membership in a regional association. To evaluate whether or not the determinants of membership have changed over time, we use the cutoff point of 1998, running the model once with the dependent variable capturing whether the firm joined a regional association in 1998 or before and once with it reflecting whether the firm joined an association after 1998.

Applying an expected cost-benefit calculus, we hypothesize that the decision to join an association is a function of both firm-specific and regional characteristics. With respect to the former, we anticipate that a firm's size (as measured by its employment level in 2001) will affect its capacity to pay membership dues as well as to influence the agenda of an association once it joins. Thus, *ceteris paribus*, larger firms should demonstrate a greater proclivity for joining.

We also consider factors that may reflect a firm's access to alternate mechanisms for influencing state actors. For instance, older firms as well as those that are state-owned,

[7] Golikova (2007) highlights a similar trend using data from a retrospective panel.

[8] There is a great deal of variation in reported annual dues for regional business associations, but the average is roughly five hundred dollars. There is strong positive correlation between reported dues and the size of the enterprise.

may have access through other, perhaps less formal, channels that do not require the mediation of a formal organization. We thus include dummy variables for both state ownership and establishment in the post-Soviet era. If our hypothesis about alternate channels of influence is correct, we would expect that state-owned firms would be less likely to have joined associations, while those firms without roots in the old system would be more likely to have become members.

We also include a dummy variable whose value is a function of the firm's geographic location. If the firm is located in a territorial subject's capital – nearly always the biggest city in a given region – its proximity to other firms makes it more likely to discover the benefits of associational membership and, possibly, participate in the "horizontal", network-building activities sponsored by the association. And finally, we include sector-level controls.

At the regional level, we consider one economic and one political variable. We include the region's per capita income level in 2001 because in cross-country studies, measures of economic development have been shown to be positively correlated with lobby membership (Bischoff, 2003; Campos and Giovannoni, 2007). We also include a measure of regional democratization. We suspect that in more democratic settings the costs of business coordination will be lower. State officials in less democratic regions, that is, likely make it harder for civil society organizations to operate even if their stated purpose is apolitical. Less democratic governments tend to be more suspicious of independent organizations since they may serve as a basis for future political opposition (Przeworski, 1991). But since the relative benefits from group membership in democratic and non-democratic setting are ambiguous, we have no strong *ex ante* expectation as to the relationship between regional democracy and membership.

The "democracy index" is a joint product of the Public Expertise Institute, the INDEM Foundation and the Merkator Analytical Center, three independent and respected Russian organizations. Their rating of individual regions takes on values between 1.0 and 5.0 (in increments of 0.5) and is based on the premises that more democratic regions should (a) adhere more closely to the "one person, one vote" principle, (b) demonstrate greater turnover in the executive branch, and (c) exhibit a higher level of political competition and diversity of representation in the legislature. Specifically, their index aggregates ten years of electoral data based on several objective indicators: time in office of the sitting governor; the number of competitors in regional gubernatorial elections and the difference

between the winner and the nearest competitor; the share of "Edinaya Rossiya" (the "party of power") in the regional parliament; the threshold (*i.e.*, minimum percentage of votes) for a party to qualify for seats in the regional legislature; the participation rate in parliamentary elections (wherein proximity to 100% is taken to indicate coercion or fraud); and a measure of the difference between the percentage of votes received by party candidates and the percentage of seats held by those parties in the legislature. The results of their research have been publicized in *Novaya Gazeta*, perhaps the most highly respected independent newspaper in contemporary Russia. Table 5 presents both the two regional variables for those regions in which the survey of firms was conducted.[9]

The results from the probit regressions are presented in Table 6. As suspected, larger firms have been more likely to join regional business associations. This finding is robust to the time frame; larger firms were more apt to join after 1998 as well as in or before that year. Additionally, our proxies for a firm having alternate channels through which to influence state actors demonstrate some relationship to regional association membership. Firms established in the Soviet era have been less likely to join business associations. Firms that were state-owned at the time of the survey, moreover, were less likely to be members of associations; although this relationship was statistically significant only for those firms that joined an association in 1998 or before.

The coefficients on the regional capital variable are suggestive of a dynamic in which associations' growth was initially largely confined to the capital city but has since expanded to other parts of the territorial subject. We also observe that regions that were wealthier in 2001 had somewhat more membership growth in or before 1998, whereas less wealthy regions seem to have had more growth in the years since.

Finally, we observe a very strong and positive correlation between the democracy index and membership in regional associations. But the precise source of this relationship is not clear. There are good reasons to suspect why democratic governance may increase a firm's ability to join a business association. But it could also be plausibly argued that cau-

[9] As a test of the democracy index's validity, we used a survey question that asked firm managers "Which parties, if any, does your firm seek assistance from to influence the content of new laws and regulations that will have an impact on your business?" The responses included legislators, the media, trade unions, executive branch personnel and influential individuals (*e.g.*, business people). The first three institutions tend to be broadly representative of social forces and democratic freedoms. Indeed, firms in regions with a higher score on the index were more likely to report seeking assistance from these three, effects that were all significant at the 5% level. Firms in more democratic regions were no more likely to rely upon personnel in the executive branch or influential individuals.

sation runs in the opposite direction. Perhaps in those regions experiencing the most robust growth of associational membership, the growing associations have pushed regional politics in a more democratic direction. The models that explore the time effects of membership provide some guidance on this question of causation. If democracy – as measured by a partly retrospective index that aggregates ten years of electoral data since the mid-1990s – drives associational membership, we should expect to see a stronger relationship between it and post-1998 membership than between it and pre-1998 membership. But if associational membership drives democracy, we might expect to see the opposite in the sense that those regions in which early membership was more likely had subsequently become more democratic. The data, however, conform more closely to the former story. Regions scoring higher on the democracy index have witnessed the fastest growth in recent years in their regional business associations. More democratic regional regimes, in other words, seem to be more encouraging of business collective action.

5 Business coordination and property rights

Having discussed the determinants of association membership, we turn to membership's relationship to the security of property rights. Prior research suggests that mechanisms that facilitate social coordination can be critical to the state's respecting for property rights on more than just a selective basis (Weingast, 1997). Successful coordination mechanisms have the capacity to sustain an equilibrium in which any actor that is party to the coordination commits to punishing encroachments against any other participant in the coordination mechanism. Facing the prospect of a collective response, state actors choose to observe the property rights of all coordinating parties. Some, indeed, have suggested that business associations play this role in emerging market contexts (Doner and Schneider, 2000; Duvanova, forthcoming).

5.1. Protection from bureaucratic predation

We first consider the capacity of firms to defend themselves against government predation. All firms in our survey were asked whether in the previous three years, they had experienced any "unplanned inspections" – *i.e.*, an un-scheduled visit from an employee of a

government agency. In the Russian context, the phrase has effectively become a euphemism for bribe extraction. Indeed, in an attempt to combat this sort of petty corruption, a special law was passed in the summer of 2001 formally restricting the number of visits that representatives of state agencies (*e.g.*, tax, fire safety, police, sanitary inspection, *etc.*). Nevertheless, firms have continued to complain about multiple unplanned inspections (CEFIR, 2005). Often, firms simply provide the government official with a "voluntarily offered payment" in exchange for forgiving a purported violation. Some firms, however, choose to appeal to a third party (Azfar and Thomas, 2005).

Since appealing an unplanned inspection is a choice, we would expect it to reflect considerations of the relevant costs and benefits. Choosing not to appeal could be interpreted as an implicit acknowledgment by the firm that it does not have the wherewithal to overturn the results. If the probability of over-turning the results is sufficiently low, it selects not to incur the costs of an appeal. A firm that appeals, however, signals by its choice a belief that it possesses the ability to change the inspection's result. Our particular interest here is whether or not this willingness to stand up for one's property rights *vis a vis* state officials is sensitive to membership in a regional association and/or the measure of region-level democratization.

Of the firms that responded to the question about having experienced an "unplanned inspection" in the previous three years, 67.9% (410 of 604) reported that they had. A large subset of these, 342 firms, reported disagreeing either with the necessity for the unplanned check(s) or with the result(s). Of these firms, 59.1% did not appeal to any third party, choosing presumably to comply with a "ruling" with which they did not agree. The remaining firms sought out the assistance of at least one third party. Roughly one-fifth of the firms that reported disagreeing with the necessity or the results of the un-planned inspection appealed either to a commercial (*arbitrazh*) court or to other government bodies (21.3% and 20.5%, respectively). In other words, they appealed to government institutions for redress against the behavior of a "rogue" bureaucrat.

To assess the determinants of firms' responses to inspections with which they did not agree, we undertake a series of probit-type regressions. Since firms may derive power over state officials from their control over labor by implicitly trading votes or other assets for influence, we control for the number of full-time employees (Shleifer and Vishny, 1994). We also control for a firm's access to informal channels of influence. State-owned enterprises as well as those with roots in the pre-Soviet era may have special ties with

powerful state actors that may increase the potential payoff from an appeal (Hellman *et al.*, 2003). Controls are also included for the influence of foreign owners and the firm's membership in a commercial group. Finally, since it is quite conceivable that the cost-benefit calculation surrounding the decision to appeal is influenced by regional factors, including the political environment, we control for regional democratization and per capita income.

As shown in Table 7, we find that smaller firms were less likely to pursue the proactive strategy. Larger firms are both more likely to appeal to the court as well as to government officials. The models also demonstrate a fairly strong relationship between the decision to appeal and regional characteristics. Firms in wealthier regions, all else equal, are more apt to behave proactively. Specifically, they more frequently appeal to non-court government bodies. Democracy also appears to be associated with a more vigorous defense of property. But this effect is tempered when a control is included for the firm's membership in a regional business association.

Most notably, the results in Table 7 indicate that even when controlling for regional democratization, business association membership is positively and strongly associated with appealing to both the arbitration court and to other government bodies. Members' proclivity to not passively accept the "results" of an unplanned inspection is consistent with the theoretical argument and prior case study evidence that membership in an organization for collective action increases a firm's capability to punish state officials for violating its property rights (Weingast, 1997; Doner and Schneider, 2000). Perhaps exploiting this potential, association members may face lower costs of accessing officials that are able to rectify an unjustly imposed penalty.[10] The relationship may additionally be a function of associations' collection and dissemination of information on how to best handle problems with corrupt government inspectors. Of regional association members, 9.4% report having used the associations for some form of legal information/consulting services.

[10] Most associations report having drawn the majority of their personnel from industry, often from the associations' members. Roughly one-third have recruited from executive branch agencies. Within the group of directors that work full time for an association, a quarter had been employed previously at an executive branch agency. And one-eighth of the directors report being members of either the State Duma or regional legislatures.

5.2 Exercising voice in the design of new institutions

From the break-up of the Soviet Union until the present day, Russia's territorial subjects have exercised a good deal of autonomy in the drafting of laws and regulations governing economic activity (Stoner-Weiss, 2006; Solanko, 2003). Table 4, recall, presented response data from the managers of both firms and business associations suggesting that associations have played a meaningful role in this process. But this evidence did not directly address the relative influence of members and non-members. Observing that member firms have a greater voice than non-members in designing economic institutions would provide further support for the proposition that the associations do, indeed, help to shape public policy and constrain state officials.

The surveyed firms were all asked whether or not in the previous three years representatives from their firms had been asked to participate in any "working groups" that were assisting in the drafting of regional laws and regulations deemed important for their business. If they responded positively, they were then asked to assess the degree to which they had influenced their final contents. Of all the surveyed firms, 23.9% reported having been asked to participate in such regional "working groups" during the previous three years.

As can be seen from the results of the probit model reported in the first column of Table 8, although regional democratization and economic development are positively related to a firm having been asked to participate, neither of theses variables is related in a statistically significant manner to having been invited to participate in these sorts of forums. Instead, firm-specific characteristics seem to be more important determinants. Younger and state-owned firms, all else equal, are less likely to have been invited. Of greatest interest to us, however, is the positive and strong association between regional association membership and having been asked to participate formally in the drafting of laws and regulations at the regional level. This finding, in conjunction with the data in Table 4, suggests that regional legislative bodies are increasingly viewing business associations as intermediaries in the state-business dialogue. And in fact, anecdotal evidence suggests that associations are often now contacted by legislative representatives for suggestions of firms that should assist in the drafting of new laws and regulations.[11]

Table 8 also includes the results from an ordered probit model in which the dependent variable is a firm's assessment of the extent to which it had influenced the final product

of the drafting process. Firms that reported having participated in such working groups during the previous three years were asked about the frequency of their influence on this process. Among the 145 respondents, 54.5% answered "never," 26.2% "occasionally," 13.8% "often" and 5.5% responded "always." Not surprisingly, larger firms report greater influence in these forums (Shleifer and Vishny, 1994)

More notably, Table 8 demonstrates that membership in a regional association is strongly and positively associated with having an impact on the design of new economic institutions. Business association members are more likely to be included in working groups and, once having been selected, are more likely than other participants to influence the drafting process. Column 3 reveals, however, that this effect is sensitive to the measure of regional democratization. The inclusion of a variable interacting regional association membership and the democracy index reveals that members' influence relative to non-members is greater in less democratic regions. Furthermore, it demonstrates that non-members in more democratic regions have greater influence than non-members in less democratic regions, *ceteris paribus*. The interaction effect is significant at the 5% level, whereas both the independent democracy and business association effects are significant the 1% level.

These results are consistent with the proposition that in the context of influencing the design of economic institutions collective action may substitute for democratic pressures. At least in this one sense, membership in a business association appears to become more desirable for a firm when the likelihood of state actors responding to broad social pressures diminishes.

5.3 Property rights and investment incentives

If the proxies for the security of firms' property rights are appropriate, we would expect the same variables that are closely correlated with them would also be strongly associated with a greater propensity to invest. Testing this, we use a survey question that asks whether or not a firm had invested in its capital stock in the previous three years. Table 9 presents the results from a probit regression in which the response to this question is the dependent variable. Indeeed, when controlling for the interaction between regional democracy and association membership, we once again observe that the independent effect of association

[11] Author interview with employee of coordinating council of employers' associations of Russia.

membership is positive and significant. The same is true of the independent democracy effect. Moreover, the interaction of the two is statistically significant and negative in the manner observed in the model that assessed the determinants of exercising influence over regional laws and regulations. As above, these findings suggest a larger marginal effect of association membership in less democratic regions, further lending support to the notion that collective action serves as a substitute for democratic pressures in terms of protecting firms' property rights. All firms in democratic regions, that is, feel relatively secure in their property rights. But, *ceteris paribus*, the subset of firms that participate in collective action feel more secure in regions in which public officials are relatively less constrained by democratic pressures.

6 Conclusion

This article arrives at several conclusions about the property rights' effects of political regimes and collective action in the business community. Firms in more democratic regions appear better equipped to protect themselves from bureaucratic predation and to influence the design of new rules and regulations that are relevant to their line of business. These findings are consistent with political competition limiting government caprice and predation and would appear to support the arguments of democratic optimists like North and Olson. As Olson suspected, democracy appears to encourage collective action, but this indirect effect of more open and competitive political regimes is more benign than he feared. Indeed, in an environment like Russia's in which state actors represent a threat to property rights, self-defense (rather than redistribution) may develop into the principle motivator of business coordination through formalized structures. For as we observe, controlling for regional politics, there is a strong correlation between association membership and the security of a firm's property rights, a finding that only confirms the testimony of some firms and most association directors that a primary function of business associations is to preserve firms' property rights. Finally, the evidence that business associations serve as a kind of substitute for democratic pressures is of particular note. At the least, this result suggests that the interaction between political institutions and collective action deserves more attention.

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Enterprises Surveyed per Territorial Subject

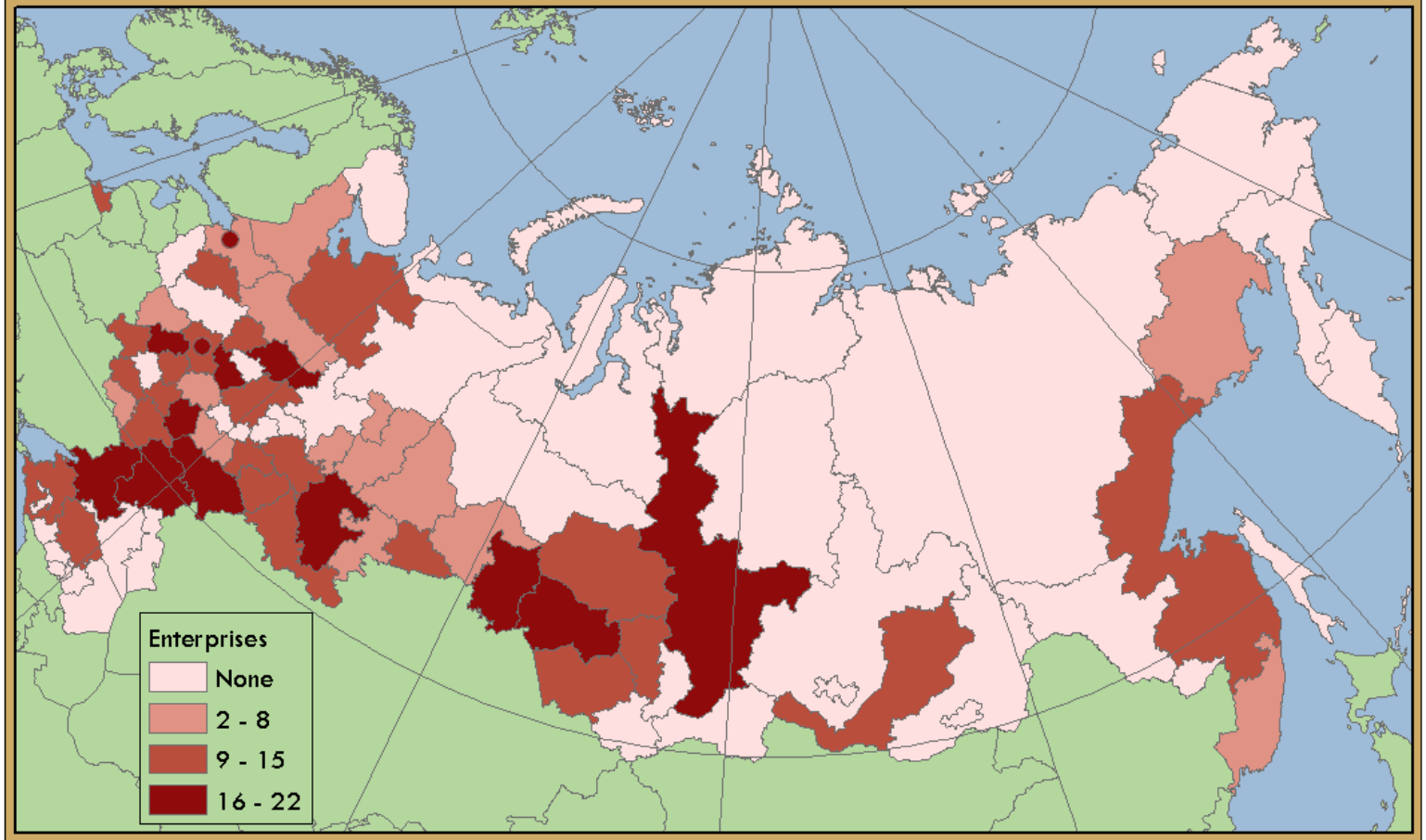

Table 1 Firms in survey sample belonging to a business association

	Percent of sample
Any type of association	46.2
Regional (any type)	39.4
Regional, multi-sector	33.8
Regional, sector-specific	7.9
Regional (any type), joined after 1998	22.7
Regional (any type), joined in 1998 or before	18.8
Federal or multi-regional (any type)	9.6

Notes: Percentages based on questions which asked respondents about the two most important associations to which they belong; only 1.2% of respondents to the screening survey reported being in more than two associations.

Table 2 Basic statistics on firms in sample

	Not member of regional association	Member of regional association
Full-time employees in 2001	414.5	883.5
State-owned enterprise (%)	6.3	3.3
Member of commercial group (%)	20.2	24.3
Some foreign ownership (%)	9.0	12.2
Established after 1991 (%)	44.1	40.6
Located in a regional capital (%)	66.2	73.6
Sector (%)		
Metallurgy	12.5	12.1
Chemicals	14.7	22.2
Machine building & metal working	15.0	10.9
Construction materials	14.7	10.5
Wood processing	15.7	12.1
Light industry	12.3	18.4
Food industry	15.5	13.8
Observations	367	239

Notes: A “regional association” is taken to mean any association that draws its membership almost exclusively from a single region. A “commercial group” links together firms through ownership in a vertically or horizontally-integrated structures.

Table 3 Years in which firms joined and associations founded

	Regional association joined (%)	Regional association formed (%)
Before 1990	2.3	4.9
1990-1992	8.6	20.3
1993-1995	12.5	23.1
1996-1998	15.6	23.1
1999-2001	39.5	16.8
2002-2004	21.5	11.9
Observations	256	143

Notes: Percentages calculated with respect to respondents that provided a date. Dates were not reported with respect to 11.4% of all memberships. All regional associations reported a founding date.

Table 4 Services provided by regional business associations

	Percentage of members responding service has noteworthy impact (4 or 5 on 0-5 scale) on financial well-being				Percentage of associations responding service important (4 or 5 on 0-5 scale) feature of activities	
	Full-time employees		Joined association			
	<=100	>100	1998 or before	After 1998	At time of founding	Current
Lobbying government officials	19.4	23.2	21.6	24.0	71.5	84.7
Participating in legislative process	18.1	19.7	14.9	21.4	54.9	83.4
Protection from illegitimate government interference	18.3	11.5	12.6	13.7	61.1	73.1

Notes: From the 280 respondents that belong to an association, we do not have dates on joining for 13.6% (50/368) of the associations. The employment data are from 2001.

Table 5 Regions in which firms surveyed

	Democracy index	Per capita income (2001)
Pskovskaya oblast'	5	26458
Smolenskaya oblast'	5	35447
Arkhangel'skaya oblast'	4.5	50159
Kaliningradskaya oblast'	4.5	35551
Kaluzhskaya oblast'	4.5	32408
Nizhegorodskaya oblast'	4.5	44957
Ryazanskaya oblast'	4.5	35069
Stavropolsky krai	4.5	26235
Vladimirskaya oblast'	4.5	29004
Kostromskaya oblast'	4	31422
Krasnoyarsky krai	4	79657
Kurganskaya oblast'	4	25800
Leningradskaya oblast'	4	48372
Tul'skaya oblast'	4	32623
Volgogradskaya oblast'	4	33173
Altaisky krai	3.5	27851
Bryanskaya oblast'	3.5	22938
Komi-Permyatskiy AO	3.5	82672
Krasnodarsky krai	3.5	37010
Lipetskaya oblast'	3.5	42197
Moskovskaya oblast'	3.5	39642
Novosibirskaya oblast'	3.5	39299
Omskaya oblast'	3.5	31723
Permskaya oblast'	3.5	63825
Primorsky krai	3.5	34967
Republic of Kareliya	3.5	46572
Rostovskaya oblast'	3.5	28470
Saint Petersburg	3.5	58497
Tomskaya oblast'	3.5	59050
Voronezhskaya oblast'	3.5	26611
Ulyanovskaya oblast'	3.5	29246
Yaroslavskaya oblast'	3.5	51359
Chelyabinskaya oblast'	3	41974
Khabarovsky krai	3	56408
Kurskaya oblast'	3	30813
Magadanskaya oblast'	3	82625
Novgorodskaya oblast'	3	39990
Republic of Udmurtiya	3	43924
Samarskaya oblast'	3	62106
Sverdlovskaya oblast'	3	46688
Tumenskaya oblast'	3	251982
Orenburgskaya oblast'	2.5	41874
Penzenskaya oblast'	2.5	23879
Saratovskaya oblast'	2.5	33602
Tambovskaya oblast'	2.5	27530
Vologodskaya oblast'	2.5	52655
Belgorodskaya oblast'	2	35186
Moscow	2	152196
Republic of Buratiya	2	30485
Republic of Adygeya	1.5	15596
Kemerovskaya oblast'	1.5	39702
Republic of Bashkortostan	1	44994
Republic of Tatarstan	1	57898
Average	3.3	47176

Notes: Incomes in 1000s of rubles. Sources: *Democratic Audit of Russia*; Yearbook *Russia's Regions*, Rosstat;

Table 6 Membership in regional business associations

	Became member of association		
	Any time	1998 or before	after 1998
Democracy (region)	0.086	0.018	0.066
	[0.036]**	[0.020]	[0.028]**
Log employees	0.120	0.078	0.037
	[0.014]***	[0.012]***	[0.010]***
Established post-1991	0.109	0.046	0.079
	[0.050]**	[0.039]	[0.036]**
State-owned	-0.098	-0.157	0.000
	[0.096]	[0.092]*	[0.066]
In regional capital	0.130	0.120	0.023
	[0.040]***	[0.039]***	[0.036]
Log income per capita (region)	-0.033	0.050	-0.113
	[0.048]	[0.026]*	[0.052]**
Sector controls	Yes	Yes	Yes
Prob>chi2	0.0000	0.0000	0.0000
Pseudo R2	0.1127	0.1309	0.0527
Observations	595	546	593

Notes: Marginal effects are reported; robust standard errors, adjusted for clustering at regional levels, in brackets; ***, **, * significant at 1%, 5% and 10% levels, respectively.

Table 7 Does firm appeal and, if so, to whom in event of improper “unplanned inspection”?

	Does not appeal		Local court		Governmental bodies	
Regional association member		-0.208		0.109		0.129
		[0.054]***		[0.040]***		[0.033]***
Democracy (region)	-0.066	-0.050	0.010	-0.000	0.048	0.036
	[0.032]**	[0.033]	[0.031]	[0.032]	[0.022]**	[0.023]
Log employees	-0.057	-0.043	0.063	0.056	0.042	0.031
	[0.024]**	[0.025]*	[0.016]***	[0.017]***	[0.015]***	[0.015]**
Established post-1991	-0.012	0.008	0.003	-0.007	0.050	0.035
	[0.059]	[0.056]	[0.047]	[0.046]	[0.043]	[0.041]
State enterprise	-0.039	-0.050	0.043	0.048	0.117	0.128
	[0.134]	[0.137]	[0.108]	[0.107]	[0.104]	[0.100]
Foreign owner influence	-0.055	-0.036	0.059	0.049	0.022	0.008
	[0.051]	[0.053]	[0.030]**	[0.030]	[0.031]	[0.031]
Commercial group	-0.059	-0.060	-0.014	-0.018	0.056	0.052
	[0.086]	[0.082]	[0.066]	[0.064]	[0.054]	[0.050]
Log income per cap. (region)	-0.126	-0.124	0.037	0.036	0.082	0.080
	[0.059]**	[0.058]**	[0.081]	[0.081]	[0.038]**	[0.036]**
Sector controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	334	334	334	334	334	334
Prob>chi2	0.0005	0.0000	0.0012	0.0000	0.0000	0.0000
Pseudo R2	0.0538	0.0807	0.0798	0.0949	0.1121	0.1382

Notes: Marginal effects from probit model are reported; robust standard errors, adjusted for clustering at regional levels, in brackets; ***, **, * significant at 1%, 5% and 10% levels, respectively.

Table 8 Formalized participation in process of shaping new rules and regulations

	Past 3 years, invited to participate in working groups to draft new laws and regulations	To what degree has been able to influence actual laws and regulations (1-4 scale)	
Regional association	0.135 [0.041]***	0.588 [0.196]***	2.538 [0.564]***
Regional association x democracy (region)			-0.629 [0.169]***
Democracy (region)	0.006 [0.036]	-0.049 [0.122]	0.345 [0.159]**
Log employees	0.018 [0.014]	0.230 [0.079]***	0.229 [0.082]***
Established post-1991	-0.115 [0.050]**	0.083 [0.250]	0.123 [0.256]
State enterprise	-0.232 [0.122]*	-0.255 [0.304]	-0.275 [0.316]
Foreign owner influence	0.047 [0.030]	-0.012 [0.096]	-0.038 [0.097]
Commercial group	0.016 [0.043]	-0.170 [0.244]	-0.281 [0.258]
Log per capita income (region)	0.075 [0.057]	-0.457 [0.207]**	-0.357 [0.204]*
Sector controls	Yes	Yes	Yes
Observations	593	143	143
Prob>chi2	0.0000	0.0000	0.0000
Pseudo R2	0.0908	.1358	0.1567

Notes: Column 1, marginal effects from probit model are reported; columns 2 and 3, ordered probit model; obust standard errors, adjusted for clustering at regional levels, in brackets; ***, **, * significant at 1%, 5% and 10% levels, respectively.

Table 9 In previous three years, did firm invest in expanding or renovating capital stock?

Regional association	0.061 [0.043]	0.489 [0.171]***
Regional association x democracy (region)		-0.126 [0.046]***
Democracy (region)	0.073 [0.027]**	0.115 [0.032]***
Log employees	0.083 [0.015]**	0.084 [0.015]***
Established post-1991	0.121 [0.051]*	0.121 [0.051]**
State enterprise	-0.117 [0.114]	-0.092 [0.124]
Foreign owner influence	0.016 [0.036]	0.011 [0.037]
Commercial group	0.055 [0.042]	0.052 [0.042]
Log per capita income (region)	0.098 [0.045]*	0.097 [0.047]**
Sector controls	Yes	Yes
Observations	593	593
Prob>chi2	0.0000	0.0000
Pseudo R2	0.0907	0.0995

Notes: Marginal effects from probit model are reported; robust standard errors, adjusted for clustering at regional levels, in brackets; ***, **, * significant at 1%, 5% and 10% levels, respectively.

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