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Introduction

"You can't get by here without help from the government."

Aleksandr Shpeter
Director, Tomsk Housing Construction Company
Deputy, Tomsk Region Legislative Duma

In 2008, the worldwide financial crisis dealt a severe blow to the construction industry in Tomsk, a charming academic center in Russia dubbed the "Siberian Athens" for the numerous universities that call the city home.[1] A crisis of liquidity forced banks to stop lending altogether to the industry, freezing almost two-thirds of construction projects dead in their tracks. Demand for apartments dropped by nearly 80 percent and dozens of firms teetered on the brink of bankruptcy. One construction manager become so desperate he started spreading false rumors to customers that his competitors had already closed up their shops. Out of the half million total residents in Tomsk, some 30,000 construction workers risked losing their jobs.[2]

Government officials scrambled to stem the bleeding. Frozen projects meant lost revenue from corporate taxes and land privatizations, money that was urgently needed to patch up safety nets and prevent an even further drop in unemployment. Strategic plans were drawn up to offer financial assistance for borrowers to buy apartments and for

[1] Epigraph quoted from published interview: Solomon Vygon, "Aleksandr Shpeter: Svetyashhiesya Okna Novogo Doma, Bal'zam Na Dushu." *Argumenty i Fakty*. October 18–24, 2006.

[2] For more information on the crisis in Tomsk, see Svinin (2008); Sergeev (2009); Ivonina (2009); Petrov (2008).

developers to complete unfinished projects. Even longstanding traditions of appealing to the federal center were upended. Russian presidents famously meet in person one-on-one with governors in front of the TV cameras, positioned across from one another as if they were locked in a fierce chess match. But for the first time in the country's history, Tomsk governor Victor Kress held a videoconference with then Russian President Medvedev to discuss financial assistance for his region's construction sector.

Observers later marveled at how a single company commanded the lion's share of the government's attention. All but unknown to the public just two years before, the Tomsk Housing Construction Company (TDSK) was officially designated a "system-forming enterprise," which made it eligible for loan guarantees and direct subsidies. The company also received a number of large, federally guaranteed state contracts, including forty-six alone from the regional government to resettle residents living in dilapidated housing and two more from the Ministry of Defense to construct apartments for officers.[3] This preferential treatment flew in the face of widespread criticism over how TDSK managed its finances and had sent a state investment fund into bankruptcy after defaulting on a 500 million ruble ($19 million) loan.[4] In one of its suburban development projects, it even refused to supply electricity to the street lamps, leaving the whole neighborhood in the dark. TDSK's rescue came at the expense of four other local, large construction companies which "simply disappeared from the market."[5] By 2013, TDSK was firmly the dominant player in the Tomsk construction industry, with a 42 percent market share and over 5,000 employees.[6]

Why did TDSK emerge triumphant while similar companies failed to catch the eye of government officials? Not lost on many at the time was the fact that TDSK's director and plurality owner, Aleksandr Shpeter, was also a longtime deputy of the Tomsk Regional Duma, the region's legislature. In that capacity, he served as the chairman of the Committee on Construction and Transport, as well as on the Committee on Economic Policy. A local businessperson held a uniquely powerful legislative position precisely at the time his firm was navigating a tough financial period. This book asks how and why businesspeople like Shpeter acquired such power in the first place.

3 Litvinova (2009).
4 Drokova and Rudnyev (2008).
5 Tomsk Vice-Mayor Evgeniy Parshuto quoted in Mikhailov (2012), p. 300.
6 Mikhailov (2013).

BUSINESSPEOPLE IN ELECTED OFFICE WORLDWIDE

Businesspeople running for and winning elected office are a staple of modern politics. Titans of various industries have headed national governments in Ukraine (chocolate), Chile (airlines, finance, television), and Finland (telecoms). Across eighteen Latin American countries, no fewer than 118 of 278 political parties during 1975–2009 had at least one primary leader come from the business community.[7] The mayor of New York City for most of the 2000s, Michael Bloomberg, commanded a billion-dollar empire in financial data services before taking office, while Richard Riordan ran Los Angeles for much of the 1990s after a successful career in venture capital. And we would be remiss not to mention Donald Trump, who succeeded where Carly Fiorina and Mitt Romney had failed before in convincing US voters that business experience was a strong qualification to hold the country's highest office.

Businesspeople are particularly well represented in legislative branches around the world. Approximately 20 percent of members of the most recent convocations of the US House of Representatives have come directly from the private sector, a percentage that has remained remarkably steady over the last 100 years.[8] Moonlighting politicians, i.e. those who earn outside income from the private sector, make up a significant share of parliamentarians in Italy, Germany, the United Kingdom, and Canada.[9] Table I.1 presents a wider snapshot of national legislatures from beyond the OECD, demonstrating that on average, one-quarter of deputies have some kind of business background.

This interest in holding office among the capitalist class is not just a recent trend. Turn-of-the-century politics in the United States were in large part dominated by businessperson legislators. In their book on inequality in the United States, Jacob Hacker and Paul Pierson write:

> Our generation is not the first in which the optimistic prediction that democracy will naturally temper excesses of income and wealth has failed to ring true. In the early twentieth century, similar problems – and laments – were widespread. Financial and industrial titans commanded vast economic power that they used not just to despoil the environment, suppress attempts to organize, and head off consumer protections, but also to buy off politicians who might stand in their way. The problem was particularly acute in the U.S. Senate whose members

7 Barndt (2014).
8 Carnes (2012).
9 Gagliarducci, Nannicini, and Naticchioni (2010); Pan et al. (2014); Fedele and Naticchioni (2016).

TABLE I.1 *Businesspeople dominate national legislatures*

Country	Pct. (%)	Year	Type	Source
Bangladesh	59	2008	Members	Chowdhury (2009)
Benin	31	2011	Members	Koter (2017)
Chile	19	2001	Members	Carnes and Lupu (2015)
China	17	2008	Members	Truex (2014)
Cyprus	21	2011	Members	Katsourides (2012)
Kyrgyzstan	27	2005	Candidates	Sjöberg (2011)
Mexico	18	2000	Members	Carnes and Lupu (2015)
Thailand	17	2005	Candidates	Croissant and Pojar Jr (2005)
Uganda	16	2011	Members	Josefsson (2014)
Ukraine	30	2007	Members	Semenova (2012)

were still appointed by state governments. The legendary journalist William Allen White portrayed the institution as a "millionaires' club", where a member, "represented something more than a state, more than even a region. He represented principalities and powers in business. One Senator . . . represents the Union Pacific Railway System; another the New York Central; still another the insurance interests of New York and New Jersey" (Hacker and Pierson, 2011, p. 79).

Nearly half of the members of the British Parliament in the late nineteenth century served as company directors.[10] Members of the House of Lords still openly mix business and politics, with Richard Allan, Lord Allan of Hallam, working as Facebook's European policy director since 2009.[11] Over the last 100 years, Argentine businesspeople with diversified empires have used elected office to pursue preferential economic policies.[12] Mexican firm directors helped write several of the important financial laws in the late 1800s and early 1900s.[13]

The fact that so many businesspeople run for office is rather puzzling. True, many economic elites enter politics for personal reasons, such as the pursuit of fame and power. But the many drawbacks of holding public office suggest that other factors are at play. Electoral campaigns require massive amounts of time and money. Governing can be burdensome, from the hours spent dealing with constituent demands to the increased media scrutiny. These responsibilities force businesspeople to divert their

[10] Braggion and Moore (2013).
[11] Scheck and Forelle (2014).
[12] Paniagua (2017).
[13] Musacchio and Read (2007).

attention away from the area where they especially excel: making money in the private sector. Why do businesspeople set aside their often extraordinarily successful careers for the uncertainty and vicissitudes of public office? And what should citizens expect from governments to which a good number of elected officials arrive straight from the business world?

This book provides answers to both questions. The first part puts forth a novel explanation for the puzzle of why businesspeople run for office. I argue that we need to approach businessperson candidacy first and foremost as a type of non-market strategy. In other words, many businesspeople seek positions in government primarily to unlock political benefits and make money for their own firms. Clearly, firms have other more conventional avenues at their disposal to achieve political influence. For example, they can make contributions to political campaigns or lobby government officials. However, in weakly institutionalized societies, relying on these strategies gives rise to a thorny commitment problem: politicians regularly shirk the promises they make to special interests, particularly firms. The central argument of this book is that businessperson candidacy helps solve this commitment program. Sending members of a firm's management team directly into government removes the need for political intermediaries and offers proximate access to policymaking. By leveraging vertical integration within the firm and keeping government relations in-house, businessperson candidacy allows firms to go around untrustworthy politicians. Businesspeople absorb the high costs of candidacy and governing when traditional corporate political activities become unreliable and ineffective.

The second part of the book then examines how electing active businesspeople to public office changes the way governments are run. Analyzing business participation at multiple levels of political office, I show that businesspeople effectively co-opt political institutions to benefit both their own firms and the wider business community. The effects are large and troubling: businessperson politicians not only remarkably improve their firms' performance on the back of government contracts, but also reshape government budgets, procurement mechanisms, and tax policy to prioritize firm growth, rather than investments in citizens and human capital. To demonstrate these effects, I draw on an array of quantitative and qualitative evidence on businessperson politicians in Putin-era Russia, a country where they make up over one-third of regional legislators, mayors, and municipal deputies. I conclude the work by offering new proposals for strengthening institutions and preventing businessperson politicians from corrupting the representation of the public interest.

BUSINESSPERSON CANDIDACY AS NON-MARKET STRATEGY

Achieving success in the business world requires more than just efficiently delivering products and services or organizing production and supply chains. Firms are embedded in complex business environments, where many actors can influence their ability to build competitive advantage.[14] Through their regulatory power, governments can dramatically influence, both positively and negatively, the cost of doing business. Protests and popular boycotts can damage firms' reputations. Cooperation with charities can bring substantial good will.

Non-market strategy collectively refers to the steps firms take to manage relationships with these stakeholders.[15] Example non-market strategies include efforts to coordinate private activists,[16] practice corporate social responsibility,[17] or engage policymakers (such as through lobbying or campaign contributions).[18] This book examines how firms decide upon specific *corporate political activities*, a subset of actions under the umbrella of non-market strategy where firms engage with government officials to gain competitive advantages.

Securing access to policymakers can have striking effects on firm financial and operating performance, but not all firms view political action as a worthwhile investment. Some firms can credibly threaten to exit markets, depriving governments of tax revenue and investment. This structural power can confer immense political influence and frees firms from having

[14] See Baron (1995*a*). In this book, I treat firms as unified actors, led by sophisticated managers who decide on strategies that best allow them to navigate their non-market environment. Recent work on non-market strategy in the United States has begun to dig deeper into how the internal management and ownership structure of a firm affects its ability to influence policymaking (Kim, 2008; Hansen and Mitchell, 2000). For most of the developing world, and particularly Russia, the development of corporate governance lags and the organization of government relations is far from sophisticated.

[15] This definition draws heavily on work such as Baron (2009) and Minor (2016). On the other hand, *market strategy* encompasses actions taken to create value within the firm's production chain or with other economic actors through contracts and agreements.

[16] Walker (2014).

[17] Barnett (2007).

[18] Baron (1995*b*).

to expend resources directly on political activities.[19] But firms across a variety of settings do invest considerable sums into politics, a clear indication that their structural power cannot alone deliver necessary political dividends. In some cases, failing to actively invest in political relationships can doom revenue generation, particularly for firms reliant on the government for subsidies and contracts.[20] Other firms face financial difficulties and see government assistance and bailouts as the only ways forward to rescue their declining fortunes.[21] For firms working in highly regulated industries, minimizing red tape can be an effective way to lower costs and increase profitability.[22] In states with weak rule of law, worries over expropriation and property rights violations drive political engagement.[23] Firms invest resources in political action because they expect to either promote their economic interests further, or at a minimum protect their domain from perceived threats.[24]

Corporate political activities seek to unlock these benefits by influencing policy through direct and indirect channels. To date, much of the literature has focused on firms' use of *indirect* strategies, such as lobbying and making campaign contributions, particularly because of the vast sums spent on each in the United States.[25] Firms contribute information, money, and/or votes to politicians in exchange for access and influence.[26] Politicians then become intermediaries and advocate on a firm's behalf. Yet indirect strategies provide no guarantee that the exchange of policy will take place. Offering larger contributions should increase the likelihood that deals struck with politicians will hold, but uncertainty about the enforcement of these agreements can reduce their attractiveness.

19 Lindblom (1977).
20 Grier, Munger, and Roberts (1994); Pittman (1977).
21 Damania (2002); Kim (2008); Hillman (1982).
22 Hart (2001); Grier, Munger, and Roberts (1994).
23 Frye (2006); Markus (2012); Markus and Charnysh (2017); Earle and Gehlbach (2015).
24 Walker and Rea (2014).
25 See Coen, Grant, and Wilson (2012) and Lux, Crook, and Woehr (2011). This domination is largely due to an overemphasis on the United States over the last 30 years. The vast and consistent growth of business participation in politics in the United States beginning in the 1970s also coincided with strict campaign finance laws and related regulations enforcing transparency about both business lobbying and campaign contributions (Lawton, McGuire, and Rajwani, 2013). The unmatched access to data from a vibrant pluralist country has dramatically sapped attention away from corporate political activity in other developing and developed countries.
26 Hillman and Hitt (1999).

By removing the need to use political intermediaries, businessperson candidacy for political office emerges as a distinct type of *direct* non-market strategy.[27] I define a businessperson candidate as any individual who runs for elected office while simultaneously serving as director, deputy director, or on the board of directors at the time of his or her electoral campaign.[28] Direct strategies such as businessperson candidacy closely bind politicians and firms and provide a stronger guarantee that an individual firm's interests will be represented. Firms do not need to persuade politicians to represent them. Instead, the politician is part of the firm's management team and strongly incentivized to pursue its interests. Running candidates for political office thus serves as an alternative mechanism for building insider political capital and is potentially available to all firms in places where elections are held. Firms develop political ties not through bribe-making or backdoor dealings, but out in the open by appealing to voters. Businessperson candidacy in that respect democratizes how political connections are made.[29]

Sending a director into elected office offers tremendous political influence for firms. In Thailand, businessperson politicians are intimately involved in drafting and changing legislation to suit their firms' interests, such as altering regulations, passing protectionist policies, and driving through new state contracts designed for their enterprise.[30] Evidence from China suggests that entrepreneurs who are members of formal political institutions enjoy preferential access to loans from banks.[31] In Russia, businessperson legislators can gain unfettered access to the executive branch by virtue of their political status and weight in opening doors to bureaucrats. Much of their political ammunition derives from the "deputy request," a powerful instrument available to Russian legislators

27 Developing political connections more generally also qualifies as a direct strategy. In Chapter 1, I examine the difference between a firm director running for office and a firm bringing on board a current politician.
28 In most post-Soviet countries, the title of firm director is equivalent to the Western titles of Corporate Executive Officer (CEO) or Director General.
29 The claim that businessperson candidacy is a type of non-market strategy does not negate that some CEOs run for office for personal reasons, including sheer political ambition. Many businesspeople do step back from their companies upon taking office and completely shift gears into professional political life. Given the tremendous opportunities to secure firm advantages (as well as weak institutions in place worldwide to prevent conflicts of interest), it is reasonable to expect that many firm directors approach public service with a self-interested motivation to help their companies.
30 Bunkanwanicha and Wiwattanakantang (2009).
31 Li et al. (2008).

to compel bureaucrats to open inspections, conduct audits, and make life miserable for their rivals.

But these benefits come at a significant cost in terms of time, money, and potentially reputation. Firms must pay for their candidate's electoral campaign or chalk up the money to pay for a spot on the party list.[32] These investments disappear if the businessperson candidate loses the election. Campaigns can be vicious and intrusive, exposing candidates to increased attention from the media and blowback from consumers and business partners who may disagree with their political positions. Upon winning election, businessperson politicians also acquire a whole new set of political duties (and constituents) to add to their normal commitments to firm management. They must find a way to juggle these competing responsibilities between the public and private sectors, and often find themselves with considerably less time to spend on that which they presumably hold most dear: running their businesses.

PUZZLE AND THEORETICAL FRAMEWORK

This presents an intriguing puzzle. Why do some businesspeople run for political office, when other less expensive political avenues are available? Which firms decide to shoulder the huge demands of campaigns and governing for the chance to achieve direct political representation? In Chapter 1, I lay out an argument that businesspeople run for elected office when they cannot trust that the politicians they lobby will represent their interests. At heart is a micro-level commitment problem that plagues *indirect* strategies such as lobbying or making campaign contributions: firm directors have no guarantee that the money they give to a politician will be returned in-kind with policy. Indirect strategies raise the risk of politician shirking, leading to political market failure and inadequate representation of firm interests. Using a variety of examples of politicians reneging on promises and even extorting local businesspeople, I make the case that lobbying and campaign contributions are far from smooth and predictable channels to build political influence.

Even more painful is the fact that conventional solutions to this commitment problem have little bite to constrain politicians from shirking. Firms cannot specify written quid pro quo contracts with politicians

[32] Engvall (2014); Mereu (2003).

where policy influence is traded for contributions such as money, information, and/or votes. Developing the trust required to enforce informal agreements requires repeated interactions over time between stable actors,[33] something that often is absent in settings where politicians regularly change parties and care little about long-term reputations. Business associations also offer little relief: mandated to reach consensus amongst their members, their interest in punishing shirking politicians on behalf of individual firms often falls short.

Argument

The central argument in this book is that businessperson candidacy helps solve the commitment problem better than other institutional- and reputation-based mechanisms. Drawing on the literature on vertical integration,[34] I contend that directly occupying a seat allows a firm to achieve political representation in-house ("making" rather than "buying" representation through a professional politician). Delegating the CEO to work simultaneously as the firm's chief political agent reduces monitoring and agency costs, and becomes an effective avenue for firms to secure their desired policies. When professional politicians fail to properly represent constituents and interest groups, their hold on elected office is vulnerable to direct challenges from these spurned actors. Broken campaign promises can lead to upheaval among the type of individuals that contest elections and often attract outsider candidates who might not otherwise have run.

This theoretical framework implies that greater concerns about politician shirking will drive businesspeople to run for office themselves. Firms opt into businessperson candidacy when politicians are deemed untrustworthy stewards of their interests. I argue first that shirking occurs when the degree of economic competition is high, giving politicians multiple suitors to choose from and reducing the efficacy of indirect strategies. Politicians can accept competing offers from rival firms, and then allocate excludable benefits (such as licenses, contracts, and guarantees). This inevitably leads to some firms being spurned, and in response drives them to seek more direct political access.

Winning access to exclusive policymaking clubs like legislatures enables a firm to ensure that policy its interests will be pursued and

33 Großer, Reuben, and Tymula (2013).
34 Coase (1937); Williamson (1981).