Organized Business, Political Competition, and Property Rights: Evidence from the Russian Federation

William Pyle
Middlebury College

Political competition and "merchant group" pressures have been pointed to as forces that limit state threats to the property rights of firms. This article presents evidence confirming their importance and highlighting an interesting feature of their interaction. Drawing on separate surveys of managers at industrial enterprises and directors of business associations in the Russian Federation, we demonstrate that a firm's willingness to contest government predation, its ability to influence reforms to its institutional environment, and its propensity to invest in physical capital are positively related both to the membership in a business association and to the level of political competition in its region. Of particular note, the relationship between association membership and property rights strengthens in less politically competitive regions. Business community collective action, that is, appears to serve as a substitute for political competition in securing firms' property rights. (*JEL* D23, D71, P26)

1. Introduction

State actors often undermine firms' property rights and, by extension, the development of the economies over which they preside. They may, for instance, threaten business profits directly as when demanding illicit payments. Or, they might do so indirectly as when making capricious and nontransparent modifications to formal economic institutions. In so doing, they weaken the connection between firms' investment activity and expected profits, stifling

The author thanks Dinissa Duvanova, Gregory Kisunko, Iikka Korhonen, Jim Leitzel, Peter Murrell, Jo Swinnen, and Andrei Yakovlev for reading the article and providing extremely helpful feedback. The comments received from colleagues in seminars at the Centre for Economic and Financial Research, Higher School of Economics, Harvard University's Davis Center, Colgate University, Wesleyan University, and Middlebury College are also gratefully acknowledged. The author also would like to recognize Irina Perova, Alexei Grazhdankin, and the Levada Analytical Centre for their professional assistance in designing and administering the surveys. Important financial assistance was provided by the National Council for Eurasian and East European Research, William Davidson Institute, and Fulbright-Hays Faculty Research Abroad Fellowship Program. Much of the research for this article was conducted while the author was a visiting researcher at the Bank of Finland's Institute for Economies in Transition.

The Journal of Law, Economics, & Organization, Vol. 27, No. 1,
doi:10.1093/jleo/ewp013
Advance Access publication June 23, 2009

their development and, as a consequence, economic growth (De Long and Shleifer 1993; Johnson et al. 2002).

We should wish to better understand government actions that weaken firms' property rights and appear to be at odds with social welfare. In what contexts are state officials more prone to corruption? In what settings are the procedures for modifying the rules and regulations that govern the business community less prone to inclusion? In what environments do firms feel secure enough to invest in expanding their capital stock? One well-known answer to these questions focuses on the macro-institutional environment and points to *political competition* and other institutionalized constraints on the concentration of state power (Montesquieu 1748/1989; North 1990). Another looks to pressures applied by *merchant groups* who employ collective action to limit state threats to property (Greif et al. 1994; Acemoglu et al. 2005b; Greif 2006).

One of our purposes here is to bring new data to bear on these (not uncontroversial) perspectives. Of greater note, we investigate the interaction of these potential sources of property rights security by asking if the importance of organized business in this regard responds to the degree of political competition. In other words, we explore whether the purposes of collective action are sensitive to the macro-institutional environment. To these ends, we exploit evidence from two surveys conducted recently in the Russian Federation: one of managers at industrial enterprises, and the other of managers in regional business associations. Using variation across territorial subjects within a single country, we hope to mitigate the problem of unobserved heterogeneity across geographic units that might weaken a similar cross-country study. Moreover, so far as we are aware, this survey project is the first in any context to combine comprehensive response data from both enterprises and the organizations that represent their interests. Results from one survey can thus be used to confirm the relationships that emerge from the other.

Our findings turn out to be consistent with both the merchant group and the political competition explanations for property rights security. Controlling for both firm-specific and region-specific characteristics, we show that members of business associations are more likely to appeal government predation, influence successfully the design of new rules and regulations, and invest in their capital stock. Additionally, we observe that firms in more politically competitive regions report a greater ability to influence the design of new economic institutions and a greater propensity to invest. Our most interesting result, however, touches on the interaction of political competition and organized business' role in securing firms' property rights. Specifically, the relationship between a firm's membership in a business association and the security of its property rights strengthens in less politically competitive regions—a finding consistent with collective action in the business community serving as a substitute for the pressures of political competition.

These relationships, which we observe from cross-sectional regressions, offer less than satisfactory evidence of causation and raise understandable concerns about endogeneity. So in the interests of providing a stronger case for causal links, we highlight two important considerations. First, our survey questions directly ask respondents about these linkages. And we find that managers of member firms describe property rights–related services as among the most valuable that they receive from associations. Moreover, association managers in less politically competitive regions give greater credit than those elsewhere to the relative importance of such services for attracting new members. In a less direct sense, we try to mitigate concerns about endogeneity by providing evidence inconsistent with reasonable hypotheses as to how the highlighted relationships might be artifacts of unobserved regional- or firm-level variation. We elaborate on these points later in this article.

The argument that we make in this article complements a familiar narrative that the distribution of political power shapes economic institutions that, in turn, structure incentives at the level of the firm to engage (or not) in productive behavior (North 1990; Acemoglu et al. 2005a). Specifically, when political forces compel state officials both to limit predatory behavior and to 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 shares connections to the work of Mancur Olson (1982, 1993, 2000) and his coauthors (Clague et al. 1996). The tie they highlight between political competition and stronger property rights is echoed here as is Olson's recognition of a link between collective action and property rights. But whereas Olson regarded business organizations as rent-seeking threats to economic development, our interpretation of their impact is more benign. When state actors render property rights insecure, business' motivation for organizing may be more in line with broad social objectives than Olson suspected. Indeed, in these circumstances, the threat posed by a predatory or capricious 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 recent history of collective action in the Russian business community. Section 4 introduces the surveys used in the analysis and Section 5 discusses our specific firm-level measures of property rights. Section 6 then explores the firm-level and regional determinants of property rights giving particular attention to regional political competition, business association membership, and their interaction. Section 7 presents conclusions.

2. Political Power and Property Rights

Following Acemoglu and others (2005a), we presume the distribution of political power in a society to be a function of 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, these authors argue, 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 contribute to 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 and others (2005a) highlight Robert Bates' research on the variation in agricultural policies across the developing world. In many African and Latin American countries, Bates (1997) describes how property rights have been abused by marketing boards paying below-market prices for crops so as to divert resources from farmers to urban constituents. One noteworthy exception is the Columbian coffee sector whose producers, although small and not organized, did not confront confiscatory policies because "the structure of party competition, rendered them pivotal, giving them power over the political fortunes of those with ambition for office . . ." (51). Kenya provides another exception. There, Bates (1981) demonstrates how successful collective action, in the form of National Farmers Union lobbying, led to policies that were respectful of property rights.

2.1 Political Competition

Although arguments that politics affect property rights are not uncommon, there is neither a consensus as to how they do so nor 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 underprovision of property rights' protections, but also "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. "Absolutist" 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) pursues a similar line of argument in comparing the incentives of democratic majorities and autocrats:

> 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 politically competitive settings, in other words, have a stronger self-interest in promoting "good" economic institutions. Olson and coauthors 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 would empower the dispossessed, threatening the propertied classes. Moreover, they point out that if political competition and democratic freedoms promote 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 mixed.

2.2 Business Coordination

Olson (1982, 2000) is also well known for arguing that non-state actors, engaged in collective action, may threaten property rights. A small group of firms, for instance, may organize so as to capture the political process and divert resources in its favor. But not all scholars emphasize the malign purposes of such coordination. Weingast (1997), for one, argues that property rights become secure when social groups establish mechanisms that allow them to coordinate their response to state encroachments. Only in the presence of such mechanisms does it become in state officials' interest to show restraint. Along these same lines, Greif and others (1994) argue that merchant guilds evolved in medieval Europe to solve the commitment problem of rulers to not abuse the property rights of alien merchants. Guilds organized the merchants from a particular area so as to collect information of any such abuses and to coordinate the subsequent embargo of the offending ruler's domain. Finally, Acemoglu and others (2005b) link the growth of Atlantic trade to the empowerment of European merchant groups that subsequently became better able to limit the ability of monarchs to threaten their property rights.

Similar themes have been picked up on in studies devoted to more contemporary efforts of business community coordination. Doner and Schneider (2000) 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 lobby for and realize welfare-enhancing improvements in public administration and stronger guarantees of property rights. Others have argued that businesses acting in concert with one another are more likely 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 2008).

2.3 Business and the State during the Postcommunist Transition

Scholarship on the postcommunist transition has given nascent business organizations relatively short shrift when considering how firms pursue interests vis-á-vis the state. In most treatments, this disregard is implicit. There are, however, several noteworthy exceptions. On the basis of Russian 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 (Frye 2006). Campos and Giovannoni (2007) show that lobby membership is positively related to firms' self-reported influence on officials in the legislative and executive branches.[1] Arguing that associations evolved as a response to predatory state officials, Duvanova (2007) uses the same data set to demonstrate a strong correlation between firms' perception of corruption and their membership in a business association. In the same article, she presents case study evidence from Russia that specific associations developed as a response to corruption.[2]

Several leading studies suggest, as we do here, that the payoff to firms' engagement with government officials is contingent on their macro-institutional environment. Using data from two dozen postcommunist countries, Hellman and others (2003) demonstrate that "captor firms"—that is, those making payments to public officials to secure favorable policies—see improvements in the security of their property rights, particularly in environments in which other firms also strike similar deals.[3] Slinko and others (2005) similarly demonstrate that Russian firms receiving special treatment in regional laws and regulations

1. Gehlbach (2006) uses the same data but arrives at different conclusions about the importance of business associations.

2. The evidence in Duvanova (2007) is drawn from two case studies in the retail sector. The evidence that I discuss later in the article comes from seven industrial sectors.

3. A growing literature, to which the study by Hellman and others (2003) is related, highlights how the threat to property rights posed by private rent seekers needs to be balanced against the threat (highlighted in this article) to property rights by state actors (Djankov et al. 2003). Acemoglu (2008) and Guriev and Sonin (2009), for instance, model the effects of predatory oligarchs. Pressure for reversing postcommunist privatization, another threat to formal property rights, may come from the electorate (Denisova et al. 2009).

outperform others, particularly in regions in which such special treatments are concentrated in a limited number of firms.[4]

2.4 Merchant Group Pressures and the Macro-institutional Environment

Should we expect merchant group efforts to promote property rights to be sensitive to macrolevel institutions, generally, and the degree of political competition, specifically? Only a few studies have made this type of interaction central to their analysis. Schneider's (2004) comprehensive investigation of business politics and the state in modern Latin America strikes an agnostic note as to whether the benign purposes of business coordination are more or less apparent in politically competitive settings. The earlier cited works by Olson (1982, 2000) and Acemoglu and others (2005b) both take a long-term view of the interactive effect of political institutions and merchant groups on property rights. But whereas Olson links democracy to the rise of special interests that ultimately subvert property rights, Acemoglu and others (2005b) argue that only under Europe's less absolutist regimes did commercial groups, enriched by Atlantic trade, become able proponents of institutional reforms to protect property rights.

One could plausibly argue that political competition and business community collective action are complements with respect to the promotion of property rights. The ability of organized groups to advocate the development of "good" institutions might be enhanced in potentially more responsive democratic settings. In contrast, the two may act as substitutes. Electoral pressures in politically competitive environments may heighten officials' sensitivity to preserving and/or promoting institutions that protect the property of the business community, resulting in a state that is less predatory and capricious. Business organizations may thus be freed to focus less on property rights and more on the direct delivery of various other services. Correspondingly, where political competition is weak, state officials may be less respectful of firms' property rights, thus compelling business organizations to devote more energy both to shielding their members from illegitimate interference and to lobbying for protective institutional reforms.

The literature review to this point serves as an introduction to the questions that are central to this article. We explore the relationship of two elements of the distribution of political power—political competition and collective

4. Several unpublished yet noteworthy papers also draw a connection between institutional variation across Russian regions and various political and economic outcomes. Guriev and others (2008) demonstrate that enterprises in regions bordered by regions controlled by businesses with interests across multiple regions perform better than those bordering regions controlled by businesses whose interests are more localized. Gehlbach and others (2008) connect the greater propensity of businessman candidates to run for regional governorships to lower levels of regional media freedom and government transparency, which they argue relate inversely to the costs of reneging on campaign promises. Yakovlev and Zhuravskaya (2008) demonstrate that deregulation reforms early in this decade were more apt to be carried out in regions with freer media access, greater fiscal independence, and more highly concentrated industries.

action—on property rights. Although the existing literature speaks to these questions, it does not do so with a single voice. Going forward, we give particular attention to the interaction between these two elements. The relatively abbreviated time frame of Russia's postcommunist transition provides us with a unique setting in which to explore all these relationships. The breakup of the Soviet Union ushered in an era characterized by great diversity in Russia's regional politics. Some parts of the country witnessed the rise of "democratic tendencies of pluralism and competition," whereas others remained seemingly frozen in the communist era with little political turnover and competition (Moses 2002). New nongovernmental associations to serve the nascent business sector also have developed, effectively from scratch, during this period.

3. Russian Business Associations

Many of the first Russian associations grew up to promote interests of small private initiatives that were permitted during the late Soviet period.[5] Others that date back to this era were organized by large state enterprises that shared an interest in preserving interfirm 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). The noteworthy exceptions include two associations that to this day remain among the most developed and influential, the Russian Union of Industrialists and Entrepreneurs (RUIE) and the Chambers of Commerce and Industry (CCI).

RUIE 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 begun to adopt a more pro-market orientation and to help organize a network of independent affiliates about which little has been written. Like these RUIE affiliates, the CCI draw their membership from many different sectors of the economy. Regulated through a special 1993 law that guarantees their independence from state bodies, the CCI network traces its roots to a communist-era institution that promoted commercial ties with the noncommunist bloc. As with the RUIE, 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 multisector 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

5. Much of this section draws on the narrative in Pyle (2006).

numbers impossible, one recent estimate puts the numbers of business associations nationally at close to 5000.[6]

Anecdotal evidence that Russia's nascent business associations work to strengthen property rights is abundant. Many of their efforts in this regard involve either shining a light on the less flattering features of the business–government interface or improving the flow of policy-relevant information between the business community and state officials. The Chamber of Commerce in Belgorod *oblast'*, for instance, reports a dramatic drop in the number of "baseless bureaucratic inspections" of businesses after securing an agreement from local government agencies that their employees would sign a log and document their rationale for each inspection (*Torgovo-promyshlennaia palata* 2002). Toward a similar end, the chamber in Saratov *oblast'* notes contributing to progress on reducing violations of property rights by aggregating the complaints of businesses and subsequently presenting its findings to representatives in executive agencies, the local legislature, and ad hoc committees appointed by the regional governor (*Interv'iu s prezidentom*, Fateyev 2004). The Center for International Private Enterprise documents a number of instances in which regional coalitions of associations have successfully pushed for reforms in local tax and regulatory rules, organized seminars to inform entrepreneurs of their legal rights, and coordinated business community responses to illegal behaviors by bureaucrats ("Strengthening Local Democracy" 2008).[7] Finally, Duvanova (2007) demonstrates with case study evidence from Russia's expanding service sector that the Guild for Audio-Video Trade Development and the League of Trade Merchants grew up in part as responses to bureaucratic predation.

4. Surveys of Industrial Enterprises and Business Associations

We administered two separate surveys of industrial enterprises across the Russian Federation to develop a comprehensive picture of associations'

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6. Author's interview in July 2005 in Moscow with the director of the Department for Cooperation with Business Associations at the Chamber of Commerce of the Russian Federation.

7. Evidence from this source points to how regional coalitions of associations help limit corruption and protect rights to property:

> The Krasnodar Coalition . . . has won more than 40 lawsuits in favor of entrepreneurs. Another 1,000 entrepreneurs received consultations via the Irkutsk hotline service .. . . Over 450 entrepreneurs who received consultations managed to prevent illegal inspections and penalties .. . . The Primorsk Coalition drew public attention to a corrupt, unfair land privatization auction that had resulted in more than 2,000 entrepreneurs losing their businesses. As a result of the coalition's advocacy, four criminal cases were opened, 180 illegal premises were seized, and business owners regained their right to lease the premises they were previously forced to vacate . . . the Kamchatka Coalition defended fishermen from arbitrary seizures and fines. Authorities were applying penalties—without court approval—on all products at the cost of the finished product as opposed to the cost of the maritime resource. The coalition brought abuse cases to court and publicized the market costs of the perishable goods, thus adding transparency to Kamchatka's largest industry . . . (8)

activities and firms' motivation for joining them. An initial screening survey of 1353 firms in 48 territorial subjects was conducted in 2003. Seven industrial sectors—metallurgy, chemicals, machine building and metalworking, construction materials, wood processing, light industry, and food processing—were represented. Respondents were asked only to identify the firm's ownership type, its employment size, and whether it was a member of a business association.[8] If a member, the respondent was then asked to provide the name(s) of the association(s) to which it belonged. By construction, slightly less than half of the respondents employed between 10 and 100 workers, with the rest having workforces in excess of 100.[9] The mean and median sizes of the respondents were 485 and 130 employees, respectively. A small minority of those surveyed, 6.8%, reported being municipal or state enterprises; the rest were privately owned. Overall, 34.2% of the respondents reported being a member of at least one business association, whereas 6.7% reported being in at least two.[10] With respect to specific associations, membership rates in a CCI or an affiliate of the RUIE were the highest. By sector, membership rates ranged from a low of 27.0% in metallurgy to a high of 44.6% in light industry. In each of the sectors, membership rates increase in the size of the firms such that, overall, the membership rate in firms with over 500 employees (57.6%) substantially exceeded that in firms of under 100 (21.4%).

This screening survey was used to construct a sample for a much more detailed survey of 606 firms representing over half of Russia's territorial subjects. An effort was made to achieve roughly equal distribution of respondents across territorial subjects and the seven industrial sectors. By construction, roughly half of the firms were to be members of associations. The screening survey's findings of membership rate variation across sectors and employment sizes were used to weight the sample's distribution of members and nonmembers 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. This latter group included a series of questions about the two associations most important to the enterprise.

Of the 280 firms in the survey that belonged to at least one association, 88 belonged to at least two. On the basis of these 368 memberships, we calculated the share of firms in the sample that belong to associations of different types.

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8. Unlike in some continental European countries, business association membership in Russia is voluntary.

9. For those with more than 100 employees, we surveyed equal numbers across the seven industrial sectors. But within each sector, we sought the distribution with respect to employment represented in the national firm registry supplied by the government statistical agency *Goskomstat*. For instance, the same numbers of firms were surveyed in the chemical and metallurgical industries but the latter group included a relatively higher proportion of enterprises with over 500 employees. Using local business registries, firms were then selected at random to fulfill the regional, sector, and size quotas.

10. Just 1.2% reported belonging to more than two.

Table 1. Basic Statistics on Firms

	Not member of regional association	Member of regional association
Full-time employees (mean, median)	390.6, 110	841.8, 287
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 and metalworking	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

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.

Firms, we learn, are more likely to be members of regional associations (i.e., one whose membership is derived almost exclusively from a single territorial subject) than those that are federal or multiregional. Of firms belonging to at least one association, 85.4% reported membership in a regional association, whereas only 20.7% reported membership in a federal or multiregional association. At the regional level, firms are more likely to be in associations that draw their membership from across multiple sectors. Of firms belonging to at least one association, 73.2% report being in a regional multisector association (e.g., a chamber of commerce), whereas only 17.1% report belonging to an association that draws together firms in just a single sector.

In Table 1, we present summary data on both reported members and nonmembers of regional associations.[11] With the exception of average firm size, the differences between the two populations of firms are not terribly striking.[12] Clearly, however, members of regional associations tend to be larger than nonmembers, 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.[13]

11. 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. 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 from 1999 to 2001.

12. Enterprise size holds up as a statistically significant predictor of association membership when controlling for a number of other enterprise characteristics.

13. Golikova (2007) also finds from even more recent survey evidence that larger Russian firms are more apt to be members of an association.

Table 2. Basic Statistics on Regional Associations

	Mean	Median
Paid employees (full time and contract)	22.3	7
Paid employees plus volunteers	31.4	12
Age in years	8.7	8
Number of members with		
Less than 50 employees	35.1	22
50–100 employees	20.9	20
100–500 employees	19.4	14
500–1000 employees	12.4	7
More than 1000 employees	12.1	5
Multisector associations (e.g., chamber of commerce; %)	85.5	
Located in a regional capital (%)	63.4	
Associations whose founders included (%)		
Other business associations	42.8	
Individual entrepreneurs/businesspeople	51.0	
State organizations/agencies	22.8	

Based on 145 "regional associations" in sample, where regional association is taken to refer to one that draws its membership almost exclusively from a single region/territorial subject.

Provided that firms pay required dues, the survey evidence suggests that there are few, if any, barriers to joining and retaining membership.[14] For instance, we found little evidence that associations are exclusive clubs. Only 1 of 326 nonmembers 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 were reportedly related to financial issues (e.g., not paying dues), whereas a smaller number stemmed from a member's violation of established behavioral norms.

A third survey was administered to the directors of 200 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 deemed to be broadly representative in terms of regional distribution, the mix between sector-specific and multisector associations and the importance of RUIE affiliates and the CCI network. Among this group, 145 associations, representing 34 different territorial subjects, were "regional" in the sense of drawing their membership exclusively from a single territorial subject. Table 2 presents some basic statistics on these regional associations. On average, they were 8 years old at the time of the survey and operated with just over 22 paid employees and roughly nine additional volunteers. Just under two-thirds were located in the capital city of their region and slightly over half numbered

14. Primarily, nonmembers report not seeing membership as useful when asked about their reasons for not belonging to a business association. Ten percent of nonmembers report finding dues excessive and smaller numbers report not knowing about any associations. We observe a great deal of variation in reported annual dues for regional business associations. The average is roughly 500 dollars but larger firms tend to pay more.

Table 3. How Important is Service to Firms Joining Association in Past 3 Years?

Informational, legal, consulting services	4.36
Opportunity to lobby government officials	4.00
Protection from illegitimate government interference	3.92
Small-business development	3.79
Development of contacts with other Russian firms	3.76
Participation in development of industrial policy	3.56
Participation in development of legislation	3.46
Resolution of disputes between firms	3.27
Development of contacts with foreign firms	3.09
Formation of behavioral standards/ethics	2.99
Development of "social partnership" in social–labor sphere	2.91

Scale from 1 (not important at all) to 5 (extremely important).

individual entrepreneurs/businesspeople among their founders. Other business associations and state organizations/agencies also played a role in establishing a good number of them.

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, for instance, by facilitating interfirm communication as to the reliability of potential customers and suppliers, the development of new technologies and market opportunities, and how to protect one's interests vis-á-vis the state (Doner and Schneider 2000; Pyle 2005, 2006). Second, they can be instrumental in the "vertical" relationship between the business community and state actors, aggregating and transmitting business interests to state bodies as well as protecting the communities that they represent from abuses of state power. Our survey data show that many regional associations report offering both types of services. Managers at the regional associations were asked to evaluate the importance on a scale from 1 (not important at all) to 5 (extremely important) of different types of services to expansion in their membership in the previous 3 years. As shown in Table 3, on average, the regional association managers gave greatest weight to the category "information, legal, and consulting services." Next in importance, however, come two services directly related to the business–government interface: lobbying and protection from illegitimate government interference.

The survey of industrial enterprises also turned up evidence that members of associations receive these types of "vertical" services. Managers at firms belonging to regional associations were asked to evaluate on a 0–5 scale how critical these services were to their firm's development and well-being.[15] Their regional association's lobbying services were judged as "important" to their

15. 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.

development in 23.2% (73 of 315) of the cases.[16] Somewhat smaller numbers (20.6% and 13.0%, respectively) evaluated their association's provision of access to the legislative process and protection from "illegitimate government interference" as similarly important.[17]

5. Measuring Property Rights

For the purposes of our empirical analysis, we approach the measurement of property rights in several ways so as to demonstrate the robustness of the highlighted relationships. First, similar to Johnson and others (2002), we relate the security of property rights to the degree to which firms are shielded from direct government predation. As noted previously, we have data directly from business associations about their provision of services that protect their members from illegitimate government interference. Our survey data from firms allow us as well to explore a firm's response to a common type of government predation. Firms throughout the post-socialist world are often subject to surprise visits by government employees purportedly seeking to verify their compliance with some regulation or rule. In Russia, the term used to describe such visits—"unplanned inspections"—has effectively become a euphemism for bribe extraction.[18] Firms often simply provide a "voluntarily offered payment" in exchange for having the purported violation forgiven. Some firms, however, choose to appeal to a third party if they perceive the visiting government official's behavior as illegitimate (Azfar and Thomas 2005).

All firms in our survey were asked whether they had experienced such an "unplanned inspection" in the previous 3 years and 67.9% (410 of 604) admitted that they had. Of these, 342 firms reported disagreeing either with the necessity for the visit or with the result(s). As shown in Table 4, 40.9% of these firms protested by appealing to a third party (e.g., a commercial court, a non-court government body). In seeking this redress, they made a choice, which we assume 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 it perceives the probability of success to be sufficiently low, it selects not to incur the costs of efforts to appeal. A firm that appeals, however, signals by its choice a belief

16. A "4" or "5" on this 0–5 scale was designated for these purposes as "important."

17. Regional association managers were also asked how important, on a 0–5 scale, particular services were to the development of their members. Over 70% of these managers reported that each of these three "vertical" services (lobbying, participating in the legislative process, and protection from "illegitimate government interference") were important to the development of their members. The greater importance that managers of associations seem to attach to these functions may reflect their possessing an exaggerated sense of their organization's importance. But it may also be that they have a fuller understanding of their services' value since the members themselves may not directly observe the provision of vertical services.

18. In an attempt to combat this sort of petty corruption, a special law was passed in 2001 formally restricting the number of visits that representatives of specific state agencies make (e.g., tax, fire safety, police, sanitary inspection). Nevertheless, firms have continued to complain about multiple unauthorized inspections (Centre for Economic and Financial Research 2005).

Table 4. Firms' Ability to Combat Bureaucratic Predation and Shape Institutional Environment

	Never	Sometimes (not often)	Often	Always
Percentage of firms that influenced legislation/ regulations drafted by regional working groups to varying degrees in past 3 years ($n = 145$)	54.5	26.2	13.8	5.5
	Any third party	Local court	Nonjudicial governmental body	
Percentage of firms that appealed an improper "unplanned inspection" in past 3 years ($n = 343$)	40.9	21.3	20.5	

that it possesses the ability to change the inspection's result—a belief, that is, that its property rights are more secure than those of a firm that chooses not to actively pursue an appeal.

We also relate the security of a firm's property rights to the degree to which it can protect itself from the threat posed by governments capable of altering fundamental economic institutions in a capricious manner. De Long and Shleifer (1993) highlight this dimension of property rights in drawing a distinction between medieval Europe's "absolutist" and "nonabsolutist" regimes. In the former, policies were made in the absence of institutionalized constraints on the state's power and mechanisms for incorporating input and advice from non-state actors. Such a ruler thus had "the power ... to appropriate private wealth for his own benefit, whether through arbitrary confiscation or ruinous taxation" (682). In the latter, institutions constrained executive power and non-state actors often were asked to provide input into the design of new rules and regulations. Some of these societies were effectively "merchant and burgher-ruled city-states, [in which] the government was close to a committee for managing affairs in the common interest of the bourgeoisie" (681).

In this spirit, our second type of property rights measure tries to capture the ability of firms to exercise influence over the design of new rules and regulations relevant to their economic activities. As noted previously, we have data from business associations as to their lobbying services and, more specifically, their participation in the legislative process. Our data, however, allow us as well to assess a firm's perceived ability to influence the design of new economic institutions through formalized policy-making processes.[19]

19. From the breakup 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 (Solanko 2003; Stoner-Weiss 2006).

Specifically, surveyed firms were all asked whether in the previous 3 years representatives from their firms had participated in “working groups” charged with providing assistance in the drafting of regional laws and regulations.[20] If a respondent had, it was then asked to assess how its participation had influenced the final results of the policy-making process.

Of all the surveyed firms, 23.9% reported having participated in such regional working groups during the previous 3 years. As reported in Table 4, 54.5% of these reported “never” having influenced the ultimate draft of the new rules and regulation. But 26.2%, 13.8%, and 5.5%, respectively, reported “sometimes,” “often,” and “always” having an influence. We interpret this perceived degree to which its voice was heard in the design of new rules and regulations, rather than its mere participation in the process, as a relative measure of its property rights security. Our thinking here is that the ability of state officials to arbitrarily or capriciously threaten the property of firms is, almost by definition, lesser when firms themselves assist in shaping new economic institutions.[21]

Our final measure for property rights based on the data from firms is their response to a question about recent capital stock investment. Although the decision to invest is not a direct measure of a firm’s property rights in the sense that the security of the latter is only an input into the former, one can reasonably argue that since the two could be expected to have similar correlates, investment behavior can at least proxy for property rights. Indeed, one prominent and recent study of the firm-level determinants of property rights uses investment activity exclusively as the dependent variable (Frye 2004). Our specific measure for investment is rather coarse as it captures only if the firm invested at all in its capital stock in the prior 3-year period. The specific question does not ask about the magnitude of this investment because of our sense that Russian managers are reluctant to reveal these sorts of specifics. Our hope is that what we lack in apparent precision, we compensate for in terms of validity. Of the firms in the sample, 67.0% reported investing in their capital stock in the previous 3 years.

Indeed, we recognize limitations in each of our three firm-level variables that measure property rights. Notably, the first two measures that we discussed apply only to subsets of all surveyed firms. Only firms that reported experiencing a disagreeable unplanned inspection were asked if they appealed. And only firms that were invited to participate in regional working groups were asked about their success in influencing new rules and regulations. Outside of an appeal to a “rogue bureaucrat” theory that unplanned inspections are

20. Regional business association members were more likely to have been asked to participate in these groups. Anecdotal evidence suggests that government officials contact associations for suggestions of firms to invite to participate in these groups. Regional political competition, however, was not associated in a statistically significant manner with these types of invitations.

21. There are other channels for exercising influence other than the one highlighted here—for example, direct lobbying, personal contacts, or campaign contributions. But, arguably, the one that is highlighted here is the most transparent and nonexclusive and, for those reasons, the one most likely to thwart government caprice.

conducted in a more or less random fashion, it would be difficult to argue that either of these subsamples are representative. So it is thus important to view these measures of property rights as effectively "conditional"; that is, they address the security of property conditional on having been on the receiving end of a disagreeable unplanned inspection or conditional on having been invited to participate in a regional working group. Again, however, we argue that the multiplicity of measures we employ, in addition to the complementary evidence from the survey of associations, compensates for the failings of any individual measure.

6. Organized Business and Political Competition

We now turn our attention to the roles of organized business and political competition in determining the security of firms' property rights. To this end, we use data from the surveys of both business associations and industrial enterprises.

The index of "political competition" that we use comes from the *Democratic Audit of Russia*, a joint project of three independent and respected Russian organizations: the Public Expertise Institute, the INDEM Foundation, and the Merkator Analytical Center. Individual regions were given scores from 1.0 to 5.0 (in increments of 0.5) applying the principles that more democratic and politically competitive regions adhere more closely to a rule of "one person, one vote," demonstrate greater turnover in the executive branch, and exhibit a higher level of political competition and diversity of representation in the legislature. Specifically, the project combined electoral data from 1995 to 2005 relating to the time in office of the sitting governor, the number of competitors in regional gubernatorial elections, the difference between the winner and the nearest competitor, the share of United Russia (the "party of power") in the regional parliament, the minimum percentage of votes threshold for a party to qualify for seats in the regional parliament, 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 nature of the project, its rankings, and methodology were written up in *Novaya Gazeta* (Iakovenko 2005), perhaps the country's most highly respected independent newspaper. Table 5 presents the scores for regions used in our analysis.[22]

22. As a test of the 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 representative of broad social forces in democratic and more politically competitive regions. We found that 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 these regions, however, were no more likely to rely on personnel in the executive branch or influential individuals.

Table 5. Regions in Which Firms Surveyed

	Democracy index	Per capita income
Pskovskaya oblast'	5.0	26,458
Smolenskaya oblast'	5.0	35,447
Arkhangel'skaya oblast'	4.5	50,159
Kaliningradskaya oblast'	4.5	35,551
Kaluzhskaya oblast'	4.5	32,408
Nizhegorodskaya oblast'	4.5	44,957
Ryazanskaya oblast'	4.5	35,069
Stavropolsky krai	4.5	26,235
Vladimirskaya oblast'	4.5	29,004
Kostromskaya oblast'	4.0	31,422
Krasnoyarsky krai	4.0	79,657
Kurganskaya oblast'	4.0	25,800
Leningradskaya oblast'	4.0	48,372
Tul'skaya oblast'	4.0	32,623
Volgogradskaya oblast'	4.0	33,173
Altaisky krai	3.5	27,851
Bryanskaya oblast'	3.5	22,938
Komi-Permyatskiy AO	3.5	82,672
Krasnodarsky krai	3.5	37,010
Lipetskaya oblast'	3.5	42,197
Moskovskaya oblast'	3.5	39,642
Novosibirskaya oblast'	3.5	39,299
Omskaya oblast'	3.5	31,723
Permskaya oblast'	3.5	63,825
Primorsky krai	3.5	34,967
Republic of Kareliya	3.5	46,572
Rostovskaya oblast'	3.5	28,470
Saint Petersburg	3.5	58,497
Tomskaya oblast'	3.5	59,050
Voronezhskaya oblast'	3.5	26,611
Ulyanovskaya oblast'	3.5	29,246
Yaroslavskaya oblast'	3.5	51,359
Chelyabinskaya oblast'	3.0	41,974
Khabarovsky krai	3.0	56,408
Kurskaya oblast'	3.0	30,813
Magadanskaya oblast'	3.0	82,625
Novgorodskaya oblast'	3.0	39,990
Republic of Udmurtiya	3.0	43,924
Samarskaya oblast'	3.0	62,106
Sverdlovskaya oblast'	3.0	46,688
Tumenskaya oblast'	3.0	251,982
Orenburgskaya oblast'	2.5	41,874
Penzenskaya oblast'	2.5	23,879
Saratovskaya oblast'	2.5	33,602
Tambovskaya oblast'	2.5	27,530
Vologodskaya oblast'	2.5	52,655
Belgorodskaya oblast'	2.0	35,186
Moscow	2.0	152,196
Republic of Buratiya	2.0	30,485

Continued

Table 5. *Continued*

	Democracy index	Per capita income
Republic of Adygeya	1.5	15,596
Kemerovskaya oblast’	1.5	39,702
Republic of Bashkortostan	1.0	44,994
Republic of Tatarstan	1.0	57,898
Average	3.3	47,176

Incomes from 2001 in thousands of rubles. Sources: *Democratic Audit of Russia* and *Russia's Regions*, Rosstat.

Two features of the index make it valuable for our analysis. First, the rankings are based on objective electoral data and thus differ from the one alternative index that is based on “expert” assessments. Second, the time period of the data used, 1995–2005, fits well with our survey data collected in 2004. Since we employ the index as an explanatory variable in regressions that explore the behaviors of firms and associations, our concerns about possible feedback effects from those behaviors to the regional political index are minimized knowing that the index is based almost exclusively on electoral data that precedes the administration of our surveys.

6.1 The Perspective of Association Managers

We first use this political competition index in conjunction with the data in Table 3 from regional business associations to assess the relative importance that they attach to their “property rights” services. Specifically, in this section, we report regressions in which measures of association managers’ assessment of the relative importance of property rights services serve as the dependent variable and the regional political competition index and association-specific measures are the independent variables. Finding that political competition is positively associated with the importance of property rights services would be consistent with the hypothesis that political competition and organized business are complements when it comes to promoting property rights. A negative association, in contrast, would be consistent with the two serving as substitutes.

The relative importance attached to a particular service (see Table 3) is the outcome of both the demand for that service and its supply by the regional business association. The reduced-form equation is

$$\mathrm{S}_{ni} = \alpha + \beta \mathrm{C}_n + \gamma \mathrm{R}_n + \delta \mathrm{A}_n + \mu_{ni}, \tag{1}$$

where S_{ni} is the importance of the ith service to the nth association, C_n the index of political competition for the region in which the association is located, R_n a vector of other characteristics of the region from which the association draws its membership (i.e., regional log per capita income), and A_n a vector of characteristics specific to the association: the logs of the association’s age in years and its number of full-time employees, a dummy variable capturing if the association is located in the region's capital city and controls for who were the association's founders. We allow for correlation in the error term, μ_{ni}, across observations by adjusting for clustering at the regional level.

We create two measures of the relative importance that these association managers attach to the *i*th service. The value of the 1–5 score given by the manager of the *n*th association to the *i*th service, S_{ni}, is divided by the sum of the scores given to all 11 services listed in Table 3—that is, $S_{ni1} = S_{ni}/(S_{n1} + S_{n2} + \ldots S_{n11})$. A second measure of the relative importance of the *i*th service, S_{ni2}, is a simple dichotomous variable, which assumes the value of 1 if S_{ni1} is greater than the median of all S_{ni}'s for the *i*th service; if it is less than or equal to the median of all S_{ni}'s, then $S_{ni2} = 0$.

Table 6 presents the results. Columns 1 and 4 show probit regressions with S_{ni2} as the dependent variable in which the *i*th service is, respectively, "protection from illegitimate government interference" and "opportunity to lobby government officials." Columns 2 and 5 as well as 3 and 6 present ordinary least squares regressions on S_{ni1}, with the latter two run exclusively on the chambers of commerce (CCI) subset of regional associations. A clear and largely consistent inverse relationship emerges between political competition and the importance that association managers attach to protecting their members from illegitimate government interference and providing them with an opportunity to lobby government officials. Associations' provision of these services, that is, is a relatively greater draw in the less politically competitive regions. Across five of the six models this relationship is significant at the 5% level.

These results thus appear consistent with the proposition that association services substitute for political competition in the sense that they are more geared to the protection of property rights where democratic processes are the least developed. In what follows, we look for further confirmation of this relationship using the self-reported behavior of firms as evidence.

6.2 The Perspective of Enterprise Managers

We now assess the contribution of regional political competition and business association membership to the security of a firm's property rights by estimating the following two equations:

$$PR_{mj} = \alpha + \beta C_m + \gamma R_m + \delta B_m + \zeta F_m + \varepsilon_{mj}, \tag{2a}$$

and

$$PR_{mj} = \alpha + \beta C_m + \gamma R_m + \delta B_m + \zeta F_m + \theta BC_m + \varepsilon_{mj}, \tag{2b}$$

where PR_{mj} is the *j*th measure for the *m*th firm's property rights. Per the discussion in Section 5, we measure the security of property rights in three different ways (i.e., $j = 1$, 2, or 3): the firm's choice to appeal the results of a disagreeable unplanned inspection either in court or before another government official or agency, the firm's ability to influence the output of working

Table 6. Regional Association Managers' Assessment of Importance of Services Driving New Membership

	Protection from illegitimate government interference			Opportunity to lobby government officials		
	All associations		Chambers	All associations		Chambers
Model	Probit (1)	OLS (2)	OLS (3)	Probit (4)	OLS (5)	OLS (6)
Political competition (region)	−0.134 (0.044)***	−0.003 (0.004)	−0.009 (0.003)***	−0.111 (0.051)**	−0.008 (0.003)***	−0.011 (0.005)**
Capital city	−0.201 (0.101)*	−0.011 (0.006)*	−0.021 (0.008)**	−0.028 (0.091)	−0.000 (0.006)	−0.023 (0.007)***
Log employees (full time)	−0.025 (0.037)	−0.001 (0.002)	0.007 (0.006)	−0.077 (0.039)*	−0.002 (0.003)	0.009 (0.005)*
Log age	−0.224 (0.133)*	−0.009 (0.007)	−0.007 (0.006)	−0.084 (0.098)	−0.007 (0.007)	−0.002 (0.005)
Log income per capita (region)	−0.073 (0.069)	−0.007 (0.006)	−0.010 (0.005)*	−0.014 (0.072)	−0.001 (0.004)	0.006 (0.010)
Founder controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	133	133	49	133	133	49
Prob > χ^2	0.0002			0.0004		
Pseudo-R^2	0.1141			0.0747		
R^2		0.1310	0.3162		0.0822	0.2925

OLS, ordinary least squares. Marginal effects from probit model are reported; robust standard errors, adjusted for clustering at regional levels, in parentheses. The dependent variable in columns 1 and 4 reflects whether the importance given to the factor by the respondent ($X_i/[X_1 + X_2 + \dots X_N]$) exceeds the median for all respondents; the dependent variable in columns 2, 3, 5, and 6 is the value of this relative weight, i.e., it equals $X_i/(X_1 + X_2 + \dots X_N)$.

***, **, * significant at 1%, 5%, and 10% levels, respectively.

groups convened at the regional level to work on new rules and regulations, and the firm's recent expansion or renovation of its capital stock.

C_m is the political competition index for the region in which the responding firm is located. R_m represents a vector of regional characteristics, which includes the log per capita income of the firm's region and, in some specifications, additional macro-institutional measures that may reasonably be thought to influence the security of firms' property rights. Besley and Burgess (2002), for instance, show that in addition to measures of political competition, mass media penetration (as measured by newspaper circulation) explains government responsiveness across Indian states. We thus employ a press freedom index provided by the Institute of Free Media and previously employed by Akhmedov and Zhuravskaya (2004). We also include a regional "capture" control designed to measure the ability of a small number of firms to skew policy making toward the promotion of their narrow interests (Slinko et al. 2005).[23]

B_m is a dummy variable capturing the firm's membership in a regional business association. As noted already, prior research suggests that mechanisms facilitating social coordination can be critical to state officials' respect for property rights (Greif et al. 1994; Weingast 1997; Doner and Schneider 2000; Duvanova 2007). Mechanisms, like formal business organizations, have the capacity to coordinate responses to encroachments against any of its members and so sensitize state actors to the rights of the coordinating parties. The resources, including knowledge, shared through the coordinating mechanism, moreover, may empower members to better defend their rights against external threats.

F_m is a vector of other characteristics specific to the firm. Since firms may derive power over state officials from their control over labor by implicitly trading votes or other assets for influence, F_m includes the number of employees working full time at the firm (Shleifer and Vishny 1994). Controls are also included for a firm's access to informal channels of influence by dint of its ownership by the state or by foreigners, its roots in the Soviet era (Hellman et al. 2003), or its membership in a commercial group.

Finally, BC_m is an interaction term (the product of B_m and C_m) designed to capture whether the relationship between business association membership and property rights is sensitive to the degree of regional political competition. Political competition and business community collective action, plausibly, could be complementary with respect to the promotion of property rights. If the voice of organized business is enhanced in more competitive political settings, we might expect to find a positive relationship between this interaction term and variables measuring the security of firms' property rights. In contrast, political pressures in electorally more competitive environments may make for state officials that are less predatory and capricious. Business organizations in regions in which such pressures were weak might thus feel

23. Regional press freedom and capture data can be accessed at http://www.cefir.ru/ezhuravskaya/body/page2.html.

more compelled to focus on property rights. If merchant group activities, that is, substitute for more robust political competition, then we would expect to observe an inverse relationship between this interaction term and property rights.

We first highlight how the results in Table 7 provide support for the proposition that merchant group pressures promote firms' property rights. Column 1 shows that regional association members are more likely to have appealed to a court or another government agency in the event of a disagreeable unplanned inspection.[24] Although this relationship, which is significant at the 1% level, disappears when controlling for the interaction term, we observe that regional association members are more likely as well to have invested in their capital stock (see columns 8 and 9) and to have influenced the design of new rules and regulations when asked to participate in government-organized working groups (see columns 4–6) at the regional level.

Firm size also is related to measures of property rights. As has been made clear in much of the literature on postcommunist economies, smaller firms are politically weaker and are more prone to government predation (Johnson et al. 2002; Hellman et al. 2003). Evidence from columns 1–9 demonstrates that larger firms are more apt to appeal unplanned inspections, to influence the design of new institutions, and to invest in their capital stock. With the exception of firms established in the post-Soviet era investing at higher rates, the other firm-level characteristics show no strong relationship to the property rights measures.[25]

The models in Table 7 demonstrate clear relationships between property rights and regional characteristics. For instance, firms in wealthier regions invested in their capital stock at greater rates (columns 7 and 8), firms in regions that were poorer or operated with a relatively freer press were more apt to have had a greater influence on the design of new economic institutions (columns 4–6), and firms in high-"capture" regions are more likely to have appealed objectionable unplanned inspections (column 3).

But of greatest interest to us here is the role of regional political competition and its interaction with business association membership. Results presented in columns 5 and 6 reveal that firms that are not members of associations are more apt to report success in influencing the design of new rules and regulations in more politically competitive regions. We observe, similarly, in columns 8 and 9 that nonmembers are more likely to invest in their capital stock where politics are most competitive. The negative coefficients on the interaction terms in these columns—all statistically significant at the 1% level—reveal that the relationship between political competition and these two property rights

24. The positive relationship between association membership and appealing to government bodies holds when we look at appealing to courts and non-judicial government bodies separately.

25. One question in the survey of firms asks members of associations about their success in influencing the behavior and priorities of the association to which they belong. The best predictor, perhaps unsurprisingly, appears to be the willingness of a firm's personnel to participate voluntarily in the association's governance.

Table 7. Security of firms' property rights

	Appealed to court or other government agency after disagreeable "unplanned inspection"			Degree to which influenced actual laws and regulations when invited to participate in regional working groups			Invested in renovating or expanding capital stock in previous 3 years		
Model	Probit (1)	Probit (2)	Probit (3)	Ord. probit (4)	Ord. probit (5)	Ord. probit (6)	Probit (7)	Probit (8)	Probit (9)
Regional association member	0.221 (0.052)***	−0.031 (0.173)	−0.084 (0.184)	0.588 (0.196)***	2.538 (0.564)***	2.722 (0.814)***	0.060 (0.042)	0.427 (0.123)***	0.420 (0.128)***
Political competition (region)	0.013 (0.038)	−0.021 (0.051)	−0.030 (0.056)	−0.049 (0.122)	0.345 (0.159)**	0.417 (0.244)*	0.073 (0.027)***	0.115 (0.032)***	0.106 (0.034)***
Regional association member × political competition		0.073 (0.049)	0.088 (0.054)		−0.629 (0.169)***	−0.695 (0.243)***		−0.126 (0.046)***	−0.124 (0.047)***
Log employees	0.051 (0.019)***	0.050 (0.019)***	0.053 ((0.019)***	0.230 (0.079)***	0.229 (0.082)***	0.229 (0.090)**	0.083 (0.015)***	0.084 (0.015)***	0.084 (0.015)***
Established post-1991	0.007 (0.052)	0.006 (0.053)	−0.006 (0.052)	0.083 (0.250)	0.123 (0.256)	0.125 (0.280)	0.119 (0.049)**	0.119 (0.049)**	0.116 (0.049)**
State enterprise	0.131 (0.139)	0.111 (0.132)	0.112 (0.125)	−0.255 (0.304)	−0.275 (0.316)	−0.041 (0.396)	−0.125 (0.128)	−0.097 (0.136)	−0.109 (0.138)
Foreign owner influence	0.045 (0.045)	0.048 (0.044)	0.044 (0.047)	−0.012 (0.096)	−0.038 (0.097)	−0.035 (0.105)	0.016 (0.036)	0.011 (0.037)	0.009 (0.038)
Commercial group	0.013 (0.081)	0.016 (0.082)	0.045 (0.088)	−0.170 (0.244)	−0.281 (0.258)	−0.264 (0.286)	0.053 (0.040)	0.050 (0.040)	0.044 (0.041)

Log income per capita (region)	0.075 (0.064)	0.078 (0.063)	0.069 (0.078)	−0.457 (0.207)**	−0.357 (0.204)*	−0.550 (0.262)*	0.098 (0.045)**	0.097 (0.047)**	0.086 (0.058)
Capture (region)			0.463 (0.232)**			−0.170 (0.952)			−0.164 (0.173)
Press (region)			0.000 (0.004)			0.029 (0.011)***			0.001 (0.003)
Sector controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	334	334	321	143	143	132	593	593	575
Prob > χ^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Pseudo-R^2	0.0981	.1010	.1099	0.1358	0.1567	0.1700	0.0907	0.0995	0.0976

Columns 1–3 and 7–9, probit model with marginal effects reported; columns 4–6, ordered probit model. All columns with robust standard errors, adjusted for clustering at regional levels, reported in parentheses. ***, **, * denote significance at 1%, 5%, and 10% levels, respectively.

variables weakens for members of business associations. Political competition, that is, is most closely associated with stronger property rights for firms that have not joined a business organization. Or alternatively, the marginal property rights "effect" of business association membership is greatest in the least politically competitive regions.

6.3 Endogeneity Concerns

The relationships identified in the preceding section are not in and of themselves evidence of causal links. Although it is difficult to dismiss this possibility given the consistency of the findings across a diverse set of property rights measures, we acknowledge the potential for endogeneity bias given the cross-sectional nature of the evidence. But several pieces of evidence mitigate our concerns in this regard by appearing to be inconsistent with plausible explanations for how the highlighted relationships might result from hidden variation across firms or regions.

At the firm level, one might presume that an unobserved attribute—a characteristic of the management, for instance—may make the firm both more prone to join an association and more able to secure its property rights. Considering this possibility, we substituted a dummy variable for membership in a national association (i.e., one whose members represent a large number of regions) for the regional association dummy. If the observed relationship between association membership and property rights were the result of some unobserved factor that explained both the decision to join a formal business organization and property rights, then we might expect the relationship between national association membership and property rights to be similar to the one we observe in Table 7. But substituting this national association membership variable into the column 1–9 specifications, we observe no statistically significant relationship between it and *any* of our measures of property rights. Belonging to a regional association is associated with greater security against unplanned inspections by local officials and capricious changes to regional institutions. But belonging to a federal association is not. If regional associations indeed help secure their members' property rights against threats that likely emanate from officials in their region, this difference makes a certain amount of sense. A plausible source of endogeneity bias, in other words, appears to be at odds with the data.

Unobserved variation at the regional level may also be a source of endogeneity bias. One might presume, not unreasonably, that business association membership merely reflects the general political–economic culture of a region. "Backward" regions, plausibly, might be thought to have predatory states, no political competition, and a weak civil society; "modern" regions, in contrast, might be considered to possess relatively freer politics, greater political competition, stronger civil society, and more robust protection of property rights. Business association membership, in this sense, might merely reflect broader (unobserved) sociocultural variation across regions rather than directly contribute to members' property rights. But this story, however reasonable sounding, is not supported by our data. Far from being most evident in the (modern) politically competitive regions, the property rights benefits of association membership appear most clearly in the (backward) politically uncompetitive regions. Again, a plausible source of endogeneity bias appears to be inconsistent with the data.

Perhaps the best evidence of a causal relationship between membership and the security of property rights comes from our survey questions that address these effects directly. Recall that when asked about the services that their regional associations provide, we found that, on average, enterprise managers characterized property rights–related services as among the most valuable in terms of the effect on their financial well-being (see Table 3). Moreover, association managers in less politically competitive regions gave greater credit than their colleagues elsewhere to the relative importance of such services for attracting new members (Table 6). Putting together all this evidence, we find it not unreasonable to consider the relationships that we have highlighted as causal.

7. Conclusions

This article provides support for arguments that political competition and merchant group pressures limit government caprice and predation. More notably, the survey data strongly suggest that the two are substitutes. Associations in less politically competitive regions offer a portfolio of services weighted more toward protecting firms from illegitimate government interference and providing them with lobbying access to government officials. And association membership in these regions is more likely to be associated with a greater capacity to influence the design of new economic institutions and a greater proclivity for investing in capital.

But while pointing to associations' importance in particular macro-institutional settings, our results leave two important questions unanswered about property rights and business community collective action. First, precisely how do associations confer more secure property rights to participating firms? Perhaps membership increases a firm's ability to initiate collective "punishment" of state officials that threaten profits through predation or capricious policies. Or perhaps the intraorganizational sharing of experiences and knowledge equips a firm to more effectively pursue its individual interests vis-á-vis state actors. Additional research will be needed to clarify the relative importance of these "collective punishment" and "collective knowledge" channels in protecting property rights. Second, it is less than clear why we would not observe higher membership rates in associations if indeed they offer services that secure property rights. Our surveys suggest, after all, that the associations are open and nonexclusive. In some settings, as shown previously, macrolevel political institutions may produce similar outcomes. But to point this out does not clarify why membership rates are not higher in regions with limited political competition. Perhaps the benefits of membership are not widely recognized or understood.

We conclude by briefly speculating about the welfare implications of associations' promotion of property rights. There is, of course, a tradition in the social sciences to regard organizations for collective action in the business community with skepticism. Olson (1982), perhaps most notably, viewed their activities as geared more to unproductive rent seeking than to promoting Pareto-improving institutional change. Indeed, readers of this article might reasonably wonder if a subset of the property rights measures we use better reflect the former purposes than the latter. Several considerations, however, mollify our concerns in this regard. First, as we noted earlier, the associations discussed here are open. Our surveys turn up almost no evidence that they are exclusive clubs. Second, we observe that Russian firms are much more apt to join multi-sector associations than the sort of sector-specific organizations that were of paramount concern to Olson and others. Chambers of commerce and similar organizations that bring together firms of all sizes from a range of sectors are more apt than associations whose membership is more homogenous to promote broad "encompassing" interests. Indeed, they could be argued to resemble other civil society organizations whose very diversity helps moderate social divisions (Putnam 1993). Finally, Russia's status as a society whose market-supporting institutions are young and weak may make it easier for a diverse array of economic actors to find common ground in pushing for Pareto-improving reforms that strengthen those very institutions. Economies whose institutions are more mature, however, may offer less in the way of such opportunities, thus rendering organized business interests less benign.

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