Institutional Decay Under Autocracy:

Evidence from Business–State Relations in Russia

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Abstract

Using an original dataset from Russia in 2003–2010, we explore the quality of authoritarian political institutions by documenting changes in political connections of the richest businesspeople within the institutional environment of a fledgling autocracy. We show that, first, as the government was modifying political institutions in the 2000s in an attempt to consolidate its power, there were no returns on businesspeople's investment in political connectedness; and that, second, during that period, the businesspeople actually retreated from politics by abandoning their political connections. The businesspeople's political disengagement reveals their insider assessment of the quality of Russian political institutions, indicating that as autocracy consolidated in Russia, its political institutional structure was actually in decay. This finding contributes to our understanding of authoritarian institutions, suggesting that even though autocracies nowadays might be institutionalized to a much higher degree, in the short run autocracy is still detrimental to institutionalization.

Keywords: authoritarian institutions, Russia, politically connected businesspeople

Better institutions can lower transaction costs by constraining economic and political agents and structuring their interactions (North 1987), but sometimes such institutions are not available. In their absence economic agents may seek non-institutional solutions to the problems they face—in particular, the problem of protecting their business or, more formally, securing their property rights. One of the possible non-institutional solutions is engaging in politics (Faccio 2006). Political engagement can therefore be conceived of as an alternative to relying on formal institutions for property rights protection.

The key distinction between the two is that, whereas formal institutions (such as courts, and the rule of law generally) function as a *public* mechanism of property rights protection, political engagement allows to obtain such protection *privately*. As a corollary, whenever the former is present, it should crowd out the latter. Thus, the well-functioning formal institutions are a default option whereas political engagement is a substitute that only arises when the institutional environment is dysfunctional. Effectively, when property rights protection is not provided as a matter of public good, the firms are forced to enter the political market to acquire the same good privately by engaging in politics more actively.[1]

A vast body of research into business strategies in under-institutionalized contexts documents this phenomenon. It has been shown that it is primarily in poorly institutionalized settings that businesspeople resort to political engagement (Li, Meng and Zhang 2006; Gehlbach, Sonin and Zhuravskaya 2010). This strategy actually pays off: where economic institutions do not protect property rights, political connections do (Khwaja and Mian 2005; Li et al. 2008; Su and Fung 2013; Özcan and Gündüz 2015). This provides for a sound empirical evidence that

1 Although sometimes such protection may actually be forced upon them (Volkov 2002), and sometimes it may be a matter of deliberate choice where some businesses (allegedly, the bigger ones) appear to be better off from gaining protection privately and precluding others from having such protection as a matter of public good (Hellman 1998; Sonin 2003).

political engagement can be considered a quasi-substitute to relying on institutions: there are strong incentives to invest in political engagement and connectedness where institutions are absent, and often disincentives to do so where institutions exist (Faccio 2006).

Note, however, that compensating for bad economic institutions with investment in political participation in order to protect one's property should be conditioned by the very existence of an opportunity to make such investment meaningfully. Yet it is far from a foregone conclusion that such an option should always exist. Indeed, just as the firms might not be supplied with public mechanisms of property rights protection, so too there can prove to be no institutional structure allowing businesses to develop political connectedness despite all aspiration to do so.

One particular institutional setting where this effect should prove especially visible is electoral authoritarianism—a type of political regime "that permits certain institutions normally associated with democracy, such as elections and political parties, to exist, while remaining authoritarian in the basic patterns of power distribution and reproduction" (Golosov 2013, 618). As follows from this definition, the formal political institutions (that could potentially serve as an avenue for businesses to exert political influence), albeit nominally present under electoral autocracy, are at the same time effectively reduced to a mere facade disguising the actual way the regime works, and virtually inconsequential on their own (Schedler 2006, 3). This in turn should make it less rewarding for the businesses to participate in these political institutions for the sake of protecting their property, even where no proper economic institutions to achieve such protection exist. Strikingly, although the poor quality of economic institutions should push businesses to invest in political engagement, when paired with the equally poor quality of political institutions, it would result in businesses retracting from politics altogether.

In this paper we observe and register this curious phenomenon by focusing on the case of Russia. The property rights protection in Russia has remained rather problematic throughout the 1990s and early 2000s (Frye 2006). It was furthermore dealt a heavy blow with the Yukos affair, when in 2003–2004 the state attacked, bankrupted, and nationalized Russia's largest private company and sent its owners and managers to prison or in exile (Tompson 2005). Far from being an isolated event, it was followed by a number of other high-profile nationalizations and sometimes even raider attacks by the state (Hanson 2009, 15–17; Tompson 2010, 69–71), which by the late 2000s led analysts to rate protection of private property rights in Russia rather low.[2] For instance, the Heritage Foundation property rights score for Russia, for what it's worth, has been 30 out of 100 throughout most of the 2000s and then dropped to 25 in 2009, and to 20 in 2015. In the index's own terms this means to say Russia went from the state where expropriation was "possible" to where it is "common." Similarly, the rule of law indicators, such as those compiled as part of the Worldwide Governance Indicators project, remained persistently low throughout the 2000s (Kaufmann, Kraay and Mastruzzi 2011).

This generally poor state of property rights protection was matched in the 2000s with a steady decay in Russia's political institutions as the country slid into autocracy (Gel'man 2015, 40–42), a development we discuss in more detail below. We hypothesize that as a result of this political deinstitutionalization, the efficiency of political engagement as a private mechanism of property rights protection (and the return on investment in such engagement) should have decreased quite significantly over the 2000s. This in turn must have pushed the Russian businesspeople, rather active politically in the early 2000s (Faccio 2006, 373), out of politics (and possibly into other forms of property rights protection; see Sharafutdinova and Dawisha

[2] Not that it was particularly high in 2000 either (Hellman and Schankerman, 2000, 552).

2017), even though the formal institutions of property rights protection and the rule of law did not improve.

To test this hypothesis, we assemble and analyze a unique dataset on political connectedness of the richest Russians for years 2003–2010, the period when Russian political regime admittedly shifted from defective democracy to electoral authoritarianism (Golosov 2011). While doing so we also contribute to an important methodological question of the role of the institutions in modern-day autocracies. We discuss this problem in more detail in the theoretical section below, but the gist of it is this: methodologically, how can we know if the institutions formally present under autocracy are for real? Our solution is to focus on institutions in use (in particular, in use by the businesses that should in principle be interested in using them) rather than the nominal institutions (available but not necessarily effective and functioning).

Our overall contribution is therefore dual. Substantively, we describe and analyze a case of complete institutional failure whereby both economic institutions (those securing property rights protection as a public good) and political institutions (allowing the businesses to acquire political connections privately if they need to) are rendered ineffectual over time as autocracy consolidates. Methodologically, we provide an approach to treat the issues related to problems of observing the effects of institutions where these cannot be taken for granted or inferred from the mere fact of the institutions' existence.

Institutions and Institutional Decay under Autocracy

Research into autocracy has traditionally been somewhat skeptical towards the role of institutions under authoritarianism, generally expecting that such institutions must be inconsequential in the face of one actor (or a group within the elites) having consolidated the power to a degree where these institutions are easily changed or neglected.[3] Recently a body of literature emerged that seeks to challenge this expectation (for reviews, see Brancati 2014; Pepinsky 2014). This novel development is due to the very development within the universe of autocracies that seem to have become more institutionalized after the end of the Cold war (Schuler and Malesky 2014, 677). More autocracies nowadays use quasi-democratic institutions such as legislatures and parties, and it is suggested furthermore that institutionalization might be an important defining feature of this new population of autocracies (Brownlee 2007, 27). At the same time, to what degree autocratic institutions, even if more ubiquitous, are in fact important and consequential remains an empirical question.

In answering this question positively, most research seeks to show how the more institutionalized autocracies are capable of attaining certain desirable political and policy outcomes unavailable to the non-institutionalized regimes. Contrary to the earlier belief that authoritarian institutions only play a relatively meager role, this new literature seems to establish that they do in fact contribute to higher economic growth and political survival—the outcomes desired by the autocrat.[4]

This finding is naturally complemented by the functionalist understanding of autocratic institutions. Its cornerstone is that there are some tasks that are too costly or simply impossible to perform without institutions (Wintrobe 1998, 4). For instance, autocracies are often characterized

3 Friedrich and Brzezinski (1961) spell this expectation out most graphically in their study of totalitarianism, where they note that “the reader may wonder why we do not discuss the ‘structure of government,’ or perhaps ‘the constitution,’ of these totalitarian systems," and go on to explain that "the reason is that these structures are of very little importance” (p. 18). Mirroring this expectation, Linz (1970) defines authoritarianism as a political system “in which a leader or occasionally a small group exercises power within formally ill-defined limits” (p. 255).

4 For growth, see Gandhi (2008), Wright (2008); for survival, see Geddes (2003), Gandhi and Przeworski (2007), Magaloni (2008), Wright and Escribà-Folch (2012), Svolik (2012). These two characteristics—the stability of the regime and its capacity to stimulate economic growth—are so salient because they are considered important for the autocrat who, in theory, seeks to remain in power (Bueno de Mesquita et al., 2003), and increase rent he receives through the state apparatus that he controls (Olson 1993; Wintrobe 1990).

by their lack of transparency and inherent uncertainty that can be detrimental to the autocrat's power (Schedler 2013). Certain quasi-democratic institutions, such as elections and legislatures, can supply the autocrat with the much-needed information about political preferences (Blaydes 2010), loyalty within the elites (Reuter and Robertson 2012), and the general situation in the country (Landry 2008). Another important function that institutions can perform is co-opting political rivals (Gandhi and Przeworski 2006), ensuring credible commitment within elites (Reuter and Remington 2009), and signaling to the investors (Moustafa 2007). To the extent that the autocrat depends on how well those functions are performed, he would be willing to begrudgingly allow the respective institutions to exist, even though they might restrict his power, or would even create such institutions anew. Moreover, given the power the autocrat has to rearrange institutions in his jurisdiction, the very existence of such constraining quasi-democratic institutions is taken for a natural sign they somehow benefit the autocrat, and that it is largely *because* of these benefits that these institutions are created and allowed to exist at all.

As a result, if not considered particularly good for institutional development, authoritarianism is now believed to be perfectly compatible with a higher degree of political institutionalization. This more optimistic thinking is, however, increasingly challenged by critiques mounted against the authoritarian institutionalist argument. In particular, two substantial criticisms are raised against this argument, each having an important methodological implication.

The first criticism refers to the inherent instability of autocratic institutions resulting from the fact that while the autocrat creates institutions, he might as easily take them away if they fail to meet his expectations. On a conceptual level, this already impairs the very logic of an institution as an “enduring collection of rules and organized practices” that are “relatively invariant in the face of turnover of individuals and relatively resilient to the idiosyncratic preferences and expectations of individuals and changing external circumstances" (March and Olsen 2008, 3). But this problem is not merely conceptual. Consider an institution created by the autocrat to attract investment by ensuring the autocrat's commitment not to expropriate the investments (say, such an expropriation would have to be approved by a formally independent multiparty legislature). By creating this institution, the autocrat would seek to convince the potential investors that his hands are tied and the risk of losing their money to political reasons is lower. But should the investors treat this commitment as credible if they know that the autocrat can untie his hands if need be? Probably, not: as Thomas Hobbes notes, "he is free, that can be free when he will," and "he that is bound to himself only, is not bound" (Hobbes 1996[1651], 176). In order for an institution to work as an instrument of credible commitment, it must be hard to cancel or modify.

This problem has a methodological implication that was forcefully expressed by Pepinsky (2014), who suggests that the institutions are often created under autocracy in response to certain structural conditions, and they are easy to modify if the conditions change. Therefore, a special effort should be made to untangle the causal effects of institutions from the effects of those underlying structural conditions that brought them to life in the first place. Only then can one be sure it is the institution in question, rather than the structural circumstances that led to its creation, that brings the observed outcome.

The research that shares these concerns (unlike some earlier studies that often did not empirically differentiate between the effects of institutions and their underlying structural conditions) gives mixed results. For instance, it appears that the observed effect multiparty legislatures have on ensuring investor confidence (and, as a result, on economic growth) might not have too much to do with restraining the autocrat from expropriating investments. Instead, multiparty legislatures tend to adopt better legislation that protects investors from the corporate insiders: when investors bring their money to such jurisdictions, they do that not for having less fear of the autocrat, but because of a better minority shareholder protection (Jensen, Malesky, and Weymouth 2014). Similarly, it is established that the same authoritarian institution can have a different reliability in the investors' eyes depending on a political context. Multiparty legislatures tend to lower the risks of expropriation in non-personalist autocracies but they fail to perform this function in personalist regimes (Wilson and Wright 2015). Therefore, it is not the institution as much as the context that determines the outcome. The autocrat may therefore sincerely want to assure investors that he is not going to expropriate, but investors should not believe him unless he has something more tangible than an authoritarian institution that he may take away whenever he likes, to prove that.[5]

This brings us to the second substantial criticism of the functionalist approach which questions its assumption that the authoritarian institutions can be accepted at their face value. The reason to doubt that lies with the impersonal nature of institutions: it is not only the rulers, but also the societies that can use them—among other things, to constrain the very rulers. However, under autocracy the ruler will try to modify the institutions so that they benefit the ruler without providing the society at large with too much real power to constrain him, thus robbing the institutions of their essence.

There is a number of practical techniques that autocrats can resort to in order to achieve that. One is not letting institutions take roots in societal practices. This is a development particularly typical of the authoritarian party systems that prove remarkably volatile even in the autocracies that are considered well institutionalized (Golosov 2013; Sanchez 2009, 498–499).

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5 As Weymouth (2011, 212) puts it, "for institutions to 'matter' for outcomes such as growth, individual actors must believe that the rules of the game ensure the security of their assets."

Another way to rob institutions of their meaning is to modify their functioning through informal institutions (Helmke and Levitsky 2004). Introducing such "subversive institutions" into the formal institutional fabric has proved to be a ploy that autocrats can resort to readily (Gel'man 2004; Gel'man 2012; Slater 2003; Smyth, Bianco and Chan 2019; Solomon 2010). Somehow or other, an authoritarian institution then becomes a dog that never barks—either because it is clever enough to recognize its master, or because it is not actually a dog.

The methodological implication that follows is that one cannot infer what consequences institutions really have under autocracy from their mere existence. If there is a systematic push for corrupting the formal institutions by subverting them with informal institutions and practices, the resulting variation in institutional strength between similar institutions across different countries should be taken into account in cross-national comparative scholarship. And researching authoritarian institutions in single case studies requires applying special methodological devices to verify if those institutions are for real.

Taken together, these critiques lead to a theoretical expectation that even if the global long-term trend might be towards quasi-democratic institutions spreading into autocracies, the short-term trend within each single autocracy is that of institutional decay. In this article we provide empirical evidence supporting this expectation, while also taking the second methodological critique seriously and analyzing the institutions in use rather than mere nominal institutions. To do that we focus on those institutions that allow for access to power (such as legislature or the elected executive) and observe temporal dynamics of their mobilization by the groups that should in principle be interested in using these institutions if they are for real. These groups—in our case, the businesspeople—are assumed to have reliable private information concerning the value of the institutions they contemplate mobilizing. By mobilizing or not mobilizing the institutions they then reveal this information to a researcher. If the general trend under autocracy is towards reducing the institutions to their semblance, then the local businesses would either be able to observe that latent deinstitutionalization directly (through their insider access to information), or would be able to infer that change from diminishing return they would get on investment they made into political connectedness. In this light, if political institutions are demobilized by the groups that have access to reliable information about their real quality, this should serve a signal of institutional decay.

Political Institutional Dynamics in Russia in the 2000s

Conventional history of business–state relations in post-Soviet Russia invokes the metaphor of a pendulum swinging between the two extremes of the *business capture*, when the government dominates the private business, and *state capture*, when the businesspeople gain control over the government (Gel'man 2010; Yakovlev 2006). The 1990s are characterized as a period when, as the state weakened, the business expanded its control over the operations of government while also managing to escape its regulation at all levels (both by establishing close informal relations with the high-level government officials, and by corrupting street-level bureaucrats; see Hellman 1998). The pinnacle of this process was a brief period in the late 1990s when, after providing the much needed financial and media support to Russia's unpopular incumbent Boris Yeltsin during the 1996 presidential elections, the richest businesspeople (colloquially referred to as the "oligarchs," see Hoffman 2011) managed to establish a stronger influence over state policies, secured access to the most lucrative state-owned assets, and even briefly held some important positions in the government.

In the early 2000s the oligarchs started losing their influence—a development attributed to the new president Vladimir Putin's successful attempts at restoring state autonomy and, generally, strengthening Russian state (Easter 2008; cf. Taylor 2011). With respect to the oligarchs this new policy took the form of their so-called "equidistancing." It was informally sealed during their meeting with the president in 2000 when, in return for the government pledging not to revise the 1990s privatization, which made the oligarchs rich, the government demanded that they stay out of politics (an arrangement known afterwards as the "*shashlik* agreement" due to allegedly being negotiated over a barbeque). The government took some steps to demonstrate its good will. It significantly simplified the tax system (Ivanova, Keen and Klemm 2005), while at the same time making the legislation more business-friendly (Dekalchuk 2017; Grigoriev 2017). A new streamlined taxation scheme was further developed specifically for the oil extracting sector (Jones Luong and Weinthal 2004).

All of these measures were supposed to establish a more balanced business–state relationship, but in 2003 the largest private company of Russia, *Yukos*, was bankrupted and nationalized, its owners and top management sent to prison. Another big oil company, *Sibneft*, was nationalized almost immediately afterwards, and by the late 2000s the pendulum has clearly swung back. The Yukos affair thus marked the beginning of a period of business capture in business–state relationship that, judging by the growing share of state ownership in Russia's economy, lasts to date (Åslund 2014; Barsukova 2019; Matveev 2019).

Note that as the government sought to limit and regulate the businesspeople's political involvement, this need not have resulted in their complete (or even systematic) withdrawal from politics. First, the policy of equidistancing only targeted the oligarchs—the extra rich businesspeople whose fortunes were big enough to allow them to substantially derange the functioning of the government or undermine the ruling group's authority. This policy was not supposed to apply to the smaller businesses, apparently deemed less dangerous for the government since their political engagement would probably even not be noticeable for the Kremlin. Second, as was already clear from the Yukos affair, the oligarchs' political engagement was only punishable on a case by case basis. Some of those extra rich businesspeople who were part to the Shashlik agreement were allowed, if not encouraged, to engage in political activity, as long as such engagement was approved by the Kremlin.[6] The decisive point was therefore not political engagement as such, but rather the motivation behind it: as long as the businessperson's political engagement was not considered detrimental to the federal government's vital interests, she could invest in political connectedness if she needed to.

The new policy thus did not mean to completely eliminate the businesspeople's *demand* for political connectedness, but rather to regulate it informally. Furthermore, since the quality of property rights protection and other economic institutional features stayed the same (and with the abovementioned reservation of limiting the oligarchs' direct involvement on a case-by-case basis), the demand for political connectedness must have remained high. At the same time, what changes significantly during this period are the *supply-side* factors—in particular, the quality of those political institutions that the businesspeople could mobilize to build up their political connectedness.[7] This change manifests itself most visibly in the series of political reforms conducted in 2001–2005 and aiming at shifting the balance of power (both in terms of its vertical and horizontal separation) in favor of the federal executive.

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6 Examples of Russia's richest businesspeople seeking elected office throughout the 2000s include Roman Abramovich who was elected governor of the Chukotka region, and Aleksandr Khloponin, the governor of Krasnoyarsk Kray. Abramovich was elected as Chukotka's governor in 2000, re-nominated by the president in 2005, and resigned in 2008—but remained the region's speaker of the house, the post he held until 2013. Aleksandr Khloponin, one of the richest Russians at the time, was first elected the governor of Taymyr Okrug in 2001, then governor of Krasnoyarsk Kray in 2002, and held the post until 2010 when he was promoted to the deputy prime-minister of Russia.

7 Curiously, the quality of political institutions is typically not even included as a factor in the two-actor models of business-state relations, where the actual relationship between the business and government is conditioned by their structural features only, such as state capacity and consolidation and cohesiveness of the business community (Kang 2002).

In the vertical dimension, the reforms started as early as in 2000 when president Putin complemented the existent regional division of Russia into 89 federal units (which by the late 1990s were typically under the firm control of their governors—the heads of the regional executive; see Golosov 2011). The reform created a new superstructure of seven federal districts, each headed by a so-called *polpred*—the president's envoy responsible for ensuring that the policies enacted by the federal center are implemented uniformly in her respective district, and that the governor does not meddle with the selection and placement of the federal agency personnel in her region (Ross 2005, 356). The governors' powers were further reduced as they lost their seats at the Federation Council (the upper house of the Russian parliament) as of 2002, and thus lost the direct political influence they had in the matters of national policy-making. Finally, the governors were dealt a particularly heavy blow as the gubernatorial elections were abolished in favor of the governors' nomination by the president. Legal requirement for a regional legislature's consent proved to be formal: the president could both depose a governor and nominate a new one as he pleased. As a corollary, this quite obviously reduced the post's attractiveness for a businessperson seeking to invest in political connection, since such investment could be easily nullified if the president dismissed the governor.

In parallel with these developments the balance was also shifting in the executive-legislative relationship at the federal level (Remington 2008). The political opportunity structure began getting sparser as the Kremlin first micro-managed the creation of a party of power, the United Russia, that became a majority party in late 2001 (Grigoriev and Dekalchuk 2016), and obtained a two-third majority after the 2003 *State Duma* (lower chamber of Russia's Federal Assembly) election by negotiating with independent candidates running in the single member districts (Golosov 2005). The Kremlin further launched a campaign to reduce the number of officially registered parties, and between 2003 and 2009 this number collapsed from 46 to just six parties formally allowed to run their lists in legislative elections. The few parties that persisted were put under informal control of the presidential administration (Gel'man 2008), so even if a businessperson would consider running on one of these parties' tickets she would still have to be informally vetted by the Kremlin and the safety of her Duma seat would further depend on it. An opportunity remained to get elected by plurality vote in a single member district since half of the Duma seats were still filled this way. Winning in these districts was not as much a matter of negotiating with the parties as one of the candidate's personal effort that granted such candidates bigger autonomy and security of their posts (Kunicova and Remington 2008). However, in 2005 the electoral system was reformed, and as of 2007 the elections were conducted by pure proportional representation. The opportunities to become a Duma *deputy* (member) therefore shrank, both in terms of all seats now being distributed by the parties, the registered parties' very number being reduced very significantly, and their being controlled directly by the Kremlin.[8]

Thus, as the government succeeded at weakening all alternative centers of power and extending its control over them, and as autocracy consolidated in Russia throughout the 2000s, the opportunities political institutions could effectively provide businesspeople with grew poorer. We hypothesize that as a result of this change in the political opportunity structure the businesspeople would gradually become less inclined to invest into such formal political connectedness simply because it would not pay off, thus testifying to the formal institutions' decay over time. To do that we first test the hypothesis that *there was no economic return from*

[8] Before the 2016 Duma elections all of these reforms (probably except for the latter) were reversed: the number of officially registered parties increased quite significantly and the mixed electoral system allowing independent candidates to run in single member districts was restored.

political connections during the studied period (H1). After testing it we can move on to test our second hypothesis that *businesspeople's propensity to possess political connections decreased through the studied period* (H2). However, as we describe above this might have been a nuanced process. In particular*, the decrease in political connectedness was more pronounced among the richer businesspeople* (H3). Indeed, it is our expectation that in this new state of things the oligarchs would rather deal directly (and informally) with the Kremlin and the presidential administration because securing formal political engagement with the federal government, the parliament or the regional governments would at best imply idle costs, and at worst would bring additional existential risks.

Data

To test these hypotheses, we put together an original dataset containing various information about the richest Russians. It consisted of three basic units. The first one contained information on the fortunes of these people and was compiled from the annual rankings published by the *Finans* magazine between 2004 and 2011, when the magazine went out of business. Rankings were published yearly in February containing information on each preceding year, so our dataset covers years 2003–2010. The magazine's methodology was to invite experts to assess the value of the industrial assets and the real estate that the participants own, as well as their other incomes. On average each of *Finans*'s annual rankings included 500 businesspeople, most of them also present in the next years' rankings (the panel, however, is not entirely balanced due to occasional drop-outs). The panel data thus collected also provided for a significantly broader individual coverage as compared to the other reputable ranking compiled by the *Forbes* magazine (only providing data on 100 richest Russians annually). *Forbes*' ranking furthermore was only launched somewhat later: its coverage starts with 2004 thus missing the important pre-Yukos affair data completely.

Aktion-media, the publisher of *Finans*, mostly deals in specialized professional and business journals: their portfolio includes such titles as *Glavbukh* (Accountant general), *Kadrovoie Delo* (The HR), *Finansovyi Direktor* (CFO), and *General'nyi Direktor* (CEO). Unlike *Forbes*, a household name in Russia, these titles are known mostly within the business community. However, because of this narrow specialization, as well as embeddedness in the business community and the expertise they command, *Aktion-media* is considered one of the most reputable business publishers in Russia. Still, to double-check the reliability of the asset data they provide, we ran several comparisons between *Finans* and *Forbes* estimates. Results indicated a rather strong comparability between the two sources. First, the percentage overlap between the *Forbes* list and the top 100 businesspeople on the *Finans* ranking ranged between 70% and 88% across years. Second, correlations between the two estimates of assets (log-transformed) were .85 on the level of observations (person–years) and .82 on the level of persons.

The second unit in our dataset was the information on the industries that the participants of the ranking were active in. This information was coded into a categorical variable covering twelve industries: retail trade, petroleum and gas extraction, construction and development, finances, engineering, agriculture, metallurgy and mining, chemical industry and perfumery, transport, food industry, IT and telecommunications, and the energy sector. The data on these sectors was also made available by the *Finans* magazine for 2008–2011. The years 2004–2007 were thus coded manually with the information collected from various sources (such as, for instance, the factbook compiled by the *Kommersant*, one of Russia's most respected daily newspapers). For the participants present in the ranking both in 2008 or later, and in the years before that, the manual coding was checked for consistency with the coding by *Finans*, with the priority given to the information supplied by *Finans* as of 2008.

The third unit contained information on the participants' ties with government officials and members of legislatures. Political connectedness was coded as a set of dummy variables in four distinct categories: one for the Duma deputies and members of the Federation Council; one for the members of regional legislatures; and two for either high-ranking officials in the federal or in the regional executive (which includes federal and regional ministers, deputy ministers, heads of all kinds of executive agencies and services, governors, and city mayors). Overall, 437 out of 3,497 person–year observations (or 12.5% of the sample) were coded as having a political connection.

There was no single source where the information on such ties would all be conveniently collected, so we relied on a variety of sources, including the *Kommersant* factbook for the more official information and the *Compromat.ru* website for the rumors about the informal ties. (Note that most of the time *Compromat.ru* only reposts information from other sources—normally, respectable and trustworthy newspapers. The information available through *Compromat.ru* was used whenever the source it referenced was deemed trustworthy.) Another valuable source of information was Russia's largest news aggregator run by *Yandex* that automatically aggregates information from various sources, including the regional and local media (which was particularly useful for revealing ties to the regional government, the mayors, etc.).

A special effort was made to find out about the businesspeople's possible informal connections to high-ranking officials (both federal and regional, executive and legislative). Informal connections were defined as either being a close relative (which includes spouses, children, parents, and siblings), or being reported as a close friend of an official where such friendship dates back before the official assumed their position. We assumed that, although the connection itself might have been working to the businessperson's benefit, neither having such informal connection, nor losing one could normally be considered a strategic choice for a businessperson, at least not in the short run. All such informally connected businesspeople (188 observations, 5.1% of the sample) were therefore excluded from the analysis.[9]

Results

We start from estimating returns on political connections over the 2003–2010 period and testing the corresponding hypothesis (H1). To do so, we simply regress businesspeople's fortunes (log-transformed to account for decreasing marginal utility) on time contrasting them by the connection status---that is, those who have a connection to those who do not. Table 1 presents the key results. We find strong support for H1. Specifically, estimated differences in both estimated asset level in 2003 and growth from 2003 to 2010 between connected and unconnected businesspeople are not significant. In other words, having a political connection (that likely incurs both material and non-material costs for businesspeople) is not found to provide any tangible economic benefits (cf. Grigoriev and Zhirkov 2020).

Evidence presented above has important implications for businesspeople's strategies with respect to investing in political connectedness. We find that, throughout the studied period, returns on connections were effectively absent—if not negative. Therefore, those contemplating making such investments should in hindsight have preferred to not invest in new political connections or abandon existing ones. But even not having the benefit of hindsight,

[9] Over the ten years that passed between the last year covered in the analysis, and the last wave in the data collection effort (August 2020), additional information regarding informal connectedness resurfaced, allowing for more confidence in not having miscoded any of the informally connected businesspeople as not having connections.

businesspeople could still anticipate such development from the ongoing institutional changes. To the degree that they expected such changes to weaken the institutions they considered investing in, this should have resulted in their gradual retraction from politics. Following this lead, we turn to exploring whether and to what extent businesspeople's propensity to invest in political connections has actually decreased in response to the institutional changes.

Table 1. Estimated returns on political connections

	2003	Change
No connection	4.70	1.59***
		(0.06)
Connection	5.10	1.49***
		(0.22)
Difference	0.40	-0.10
	(0.18)	(0.23)

Note. Clustered standard errors in parentheses. Control variables: age and industry. Tests reported for difference and change estimates only. See Table S1 in Supplementary Material for full results
* $p < .05$, ** $p < .01$, *** $p < .001$

To test this hypothesis (H2), we run a model that predicts probability of a businessperson's political participation in the studied period (2003–2010). For our analysis the most interesting factor is time since we seek to establish if the businesspeople's formal political engagement decreased between 2003 and 2010. To control for the fact that those businesspeople already having connections in the previous year are likelier to have such connections in any given year, we introduce an element of autocorrelation (the dependent variable is added as predictor with a one-year lag). Other control variables are businessperson's fortune and industry.

Table 2 presents results from four panel logistic regression models that differ in specifications as well as in terms of included observations. Models 1, 2, and 3 use random-effects estimator. Specifically, Model 1, which can be seen as the baseline, simply includes all observations across the studied time period. Model 2 attempts to account for the fact that the numbers of observations differ across years and includes only first 400 observations for each year. Model 3 includes all available observations but also introduces indicator variables for years 2003, 2005, and 2008 to account for imbalances in terms of sample sizes.[10] Model 4 uses fixed-effects estimator and, therefore, includes only individuals for whom actual change in political connections is observed within the analyzed time period. Across models, explanatory variables are normalized to range from 0 (smallest observed value) to 1 (greatest observed value). Log fortune variable is also centered around its observed mean. All four models give a consistent result in favor of H2: over time, as the negative and significant time trend shows, businesspeople gradually retreat from politics. Moreover, this effect is observed in the sample as a whole (random-effects models) as well as for specific individuals (fixed-effect model).

Table 2. Logistic regression results predicting having a political connection

	Model 1 (RE)	Model 2 (RE)	Model 3 (RE)	Model 4 (FE)
Time trend	-2.14***	-1.92**	-2.54***	-2.45**
	(0.60)	(0.60)	(0.75)	(0.91)
Connection previous year	9.26***	8.89***	9.40***	3.79***
	(0.96)	(0.89)	(1.05)	(0.65)
Log fortune	1.83	1.49	2.50*	3.69*
	(1.18)	(1.30)	(1.26)	(1.56)
Industry	yes	yes	yes	no
N observations	3,490	2,780	3,490	242
N individuals	996	770	996	42

Note. RE = random effects. FE = fixed effects. Standard errors in parentheses. Industry varies only on the level of individuals. See Table S3 in Supplementary Material for full results
* $p < .05$, ** $p < .01$, *** $p < .001$

10 The average number of observations per year is approximately 436. However, there are only 137 observations in year 2003, 378 observations in 2008, and as many as 686 observations in 2005. We estimate a model with fixed effects for these years to account for the possibility that exclusion or inclusion of cases may be non-random with respect to political connections. See Table S2 in Supplementary Material for the distribution of observations across years.

Since estimated coefficients from logistic regressions are difficult to interpret in substantive terms, here we also present the results translated into the key quantity of interest—probability of having a political connection. Respective estimates are presented in Table 3 as probabilities of losing (or abandoning) a connection for each year given that such a connection was present in the previous year. Specifically, for a businessperson with a political connection in year 2002 the probability of having the same connection in year 2003 is approximately 91.2%. The corresponding estimate for years 2009 and 2010 is only 74.7%. In other words, businesspeople's propensity to lose or abandon political connections accelerates with time. This is an additional piece of evidence in favor of H2.

We also investigate to what extent the estimated time trend may be driven by the specific years included in the study. Figure 1 plots estimated yearly differences in political connections using 2003 as the baseline. It can be seen that, after staying on the same level in 2004 and 2005, businesspeople's propensity to have connections decreases in 2006 and 2007. Then, there is an increase in connections in year 2008. Its sources are not entirely clear. For instance, it might have happened as businesspeople's response to the financial crisis and search for state protection at the times of hardship. Still, by 2010 their propensity to have political connection decreases again to the lowest levels observed. It is necessary to note that the 2008 observation works against our finding in favor of H2—making it even more important that we are able to establish a significant negative trend. At the same time, it highlights possibly the main limitation of our analysis: the fact that the studied database ends in 2010. Seeing whether businesspeople's retreat from politics continues into the 2010s remains an avenue for future research.

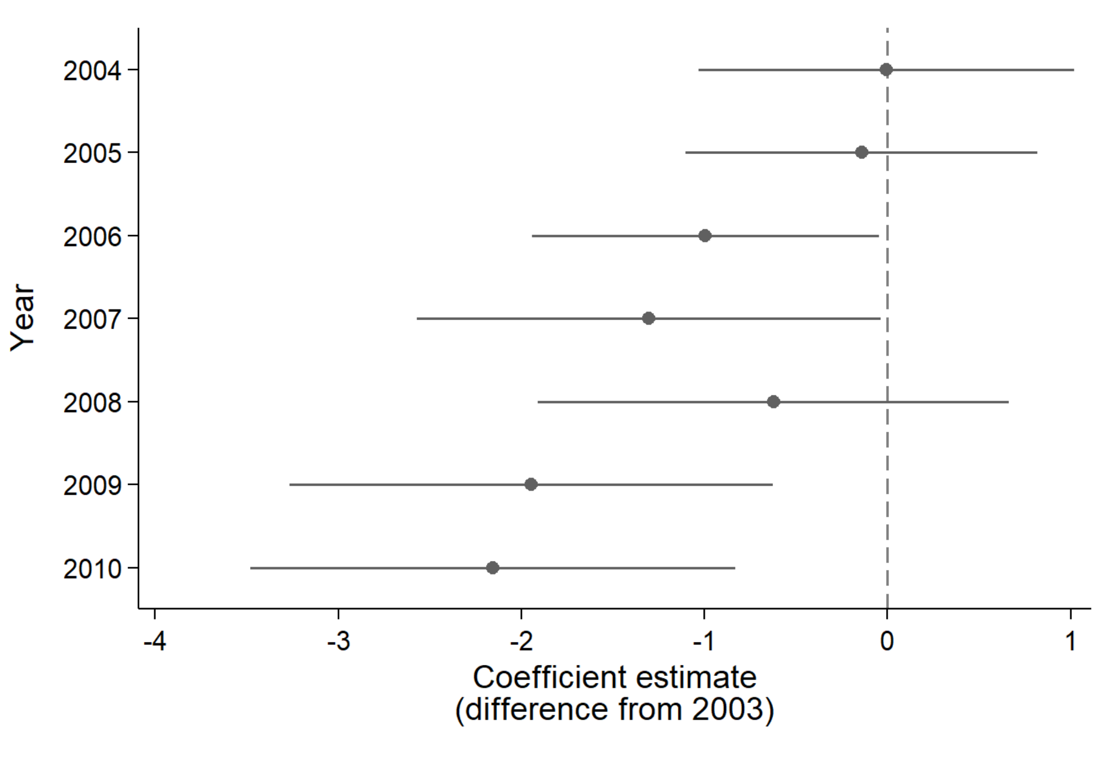

Figure 1. Year indicator variables' effects on propensity to have a political connection
Note. See Table S4 in Supplementary Material for full results

Finally, we explore whether the gradual withdrawal of businesspeople from politics in 2003–2010 has been largely driven by the richest ones induced to cut their political engagement in response to the government's equidistancing policies after the Shashlik agreement and, especially, the Yukos affair (H3). To test this hypothesis, we estimate an interactive effect of time and assets on probability to have political connections in order to see whether the retreat from politics was stronger among the wealthier businesspeople. The interaction coefficient is negative as expected—but not significant on the 95% confidence level ($b = -0.83$, $p = .062$). In other words, we do not find support for H3 as the richer businesspeople do not seem to abandon their political connections significantly faster than the rest during the studied period.

Following the guidelines on the presentation of interactive effects (Brambor, Clark and Golder 2006), we show ours graphically in Figure 2. Numbers on the y axis have the same substantive interpretation as estimates from Table 3: they are estimated probabilities of having a political connection in a designated year given presence of a connection previous year. It can be seen that more affluent businesspeople start with slightly higher probabilities to keep connections but, as time goes, lose their connections at a somewhat higher rate. None of these differences, however, are statistically significant. Again, it would be interesting to see whether divergence in trends persists, potentially leading to a significant difference by late 2010s.

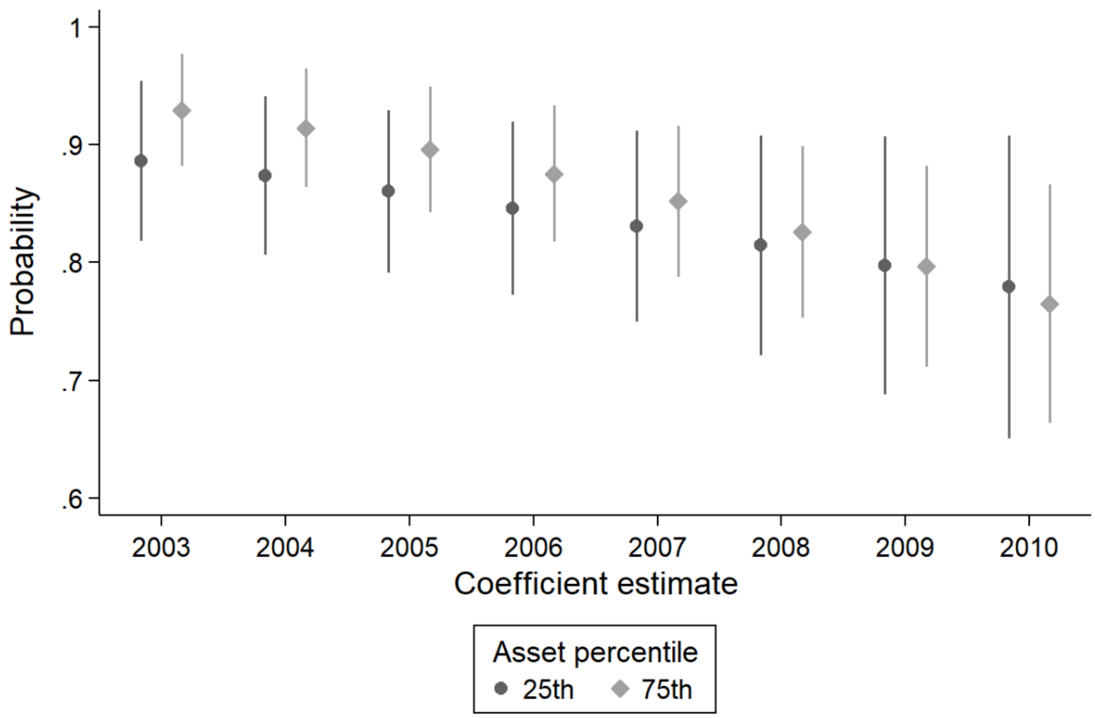

Figure 2. Predicted probabilities of having a political connection by year for businesspeople having connection previous year
Note. Estimates based on regression model in Table S4 in Supplementary Material

This result is important for our theoretical argument. One alternative explanation for businesspeople's gradual loss of political connections in 2003–2010 is conscious efforts by the government to limit their political participation. However, such efforts should have been directed first and foremost against the richest and the most influential businesspeople—the so-called oligarchs. The absence of a significant difference between more and less affluent businesspeople suggests that it could not have been the primary reason why they have been gradually leaving politics. We believe that the reason this happened has been the decline in profitability of political connectedness over time conditioned by weakening of Russia's political institutions. The businesspeople's strategies only reflect this process: as political institutions get less efficient in allowing them to achieve their interests, they retreat from politics.

Discussion and Conclusion

In this paper, we have attempted to trace the institutional decay in the context of a consolidating autocracy using Russia in 2003–2010 as the case study. We have focused on a particular aspect of institutions' effectiveness: their ability to protect the interests of the richest businesspeople bypassing public political process. Our empirical strategy has been based on a conjecture that, as insiders, the most affluent members of the business community have knowledge or relatively good prognostic capabilities with respect to institutions' economic value. Therefore, their actions can be seen as an indicator of institutions' quality in cases when it cannot be readily inferred. Specifically, we have hypothesized that a consolidating autocracy leads to weakening of formal institutions and, as a result, to businesspeople abandoning political connections as they would do with any other ineffective investment.

In our empirical analysis, we have reported three essential findings. First, having political connections in 2003–2010 was not associated with increased asset growth among Russia's richest businesspeople indicating low efficiency of institutions in advancing economic interests. Second, businesspeople were gradually abandoning their political connections over the same time period—likely, in response to low returns on investments in political institutional connections. Third, political withdrawal was happening with largely similar rates for businesspeople with different wealth levels, thus suggesting that this process was not primarily caused by government's crackdown on political ambitions of the oligarchs. Altogether, we have confirmed the methodological value of relying on insiders' actions as an indicator of institutions' value when such value cannot be taken for granted. We have also demonstrated that consolidating autocracies have negative consequences for capabilities of political institutions—even when they continue to formally exist.

For someone interested in the businesspeople's political engagement strategies an interesting question following from our research is, where the businesspeople go if they do not enjoy a high enough level of property rights protection through the rule of law and, at the same time, cannot compensate for that by acquiring political standing within the existent formal political opportunity structure (which as we show was the case in Russia in the 2000s). Part of the answer to that question might lie with the richest businesspeople externalizing justice and enforcement through relocating into a more secure jurisdiction or choosing external courts for arbitration with each other (Sharafutdinova and Dawisha 2017). To the extent such externalization of justice is not an option for the poorer strata within the business community, they can engage with the formal institutions of property rights protection where possible: for instance, go to the generally less corrupt and more independent commercial courts. Going political should also probably remain a feasible option (Szakonyi 2018), as long as other businesspeople do the same, although in light of the results of this research one should expect it to grow overall less efficient and therefore less attractive in the longer run.

Importantly, from the perspective of institutional dynamics under fledgling autocracy this possibility is not an issue since it does not impact our principal findings: as autocracy consolidates in Russia, the quasi-democratic institutions it retains are gradually robbed of their meaning. Social groups that should in principle be interested in mobilizing these institutions prefer to disengage from them, thus signalizing their increasing irrelevance and impotence. This suggests a correction to the current discussion on autocratic institutions that seems to place too much of an emphasis on the existence of quasi-democratic institutions in the post-third-wave autocracies and the role they play in these autocracies' political development. It may be an important macro-historical trend that autocracies nowadays are institutionalized to a much higher degree than previously (Brooker 2013; Brownlee 2007). On a meso-historical level, however, autocracy is still detrimental to institutionalization.

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Supplementary Material

Table S1. Estimated returns on political connections: Full OLS regression results

	Model 1	Model 2
Assets in 2003		
Connection	4.70***	4.70***
	(0.12)	(0.12)
Not connection	5.10***	
	(0.21)	
Difference		0.40*
		(0.18)
Asset growth		
Connection	1.59***	1.59***
	(0.06)	(0.06)
Not connection	1.49***	
	(0.22)	
Difference		-0.10
		(0.23)
Industry (Finance = ref.)		
Metallurgy	0.65**	0.65**
	(0.20)	(0.20)
Retail	-0.28*	-0.28*
	(0.13)	(0.13)
Construction	-0.45***	-0.45***
	(0.14)	(0.14)
Food	-0.35*	-0.35*
	(0.14)	(0.14)
Petroleum	0.40*	0.40*
	(0.20)	(0.20)
Chemical	0.02	0.02
	(0.19)	(0.19)
Communication	-0.49**	-0.49**
	(0.15)	(0.15)
Transportation	-0.26	-0.26
	(0.16)	(0.16)
Machinery	-0.49**	-0.49**
	(0.15)	(0.15)
Agriculture	-0.47**	-0.47**
	(0.16)	(0.16)
Energy	-0.62	-0.62
	(0.45)	(0.45)
Other	-0.90***	-0.90***
	(0.17)	(0.17)

Table S2. Distribution of observations across years

	Count	Percentage
2003	137	3.93
2004	440	12.61
2005	686	19.66
2006	469	13.44
2007	464	13.30
2008	378	10.83
2009	458	13.12
2010	458	13.12
Total	3,490	100.00

Table S3. Full logistic regression results predicting having a political connection

	Model 1 (RE)	Model 2 (RE)	Model 3 (RE)	Model 4 (FE)
Time trend	-2.14***	-1.92**	-2.54***	-2.45**
	(0.60)	(0.60)	(0.75)	(0.91)
Connection previous year	9.26***	8.89***	9.40***	3.79***
	(0.96)	(0.89)	(1.05)	(0.65)
Log fortune	1.83	1.49	2.50*	3.69*
	(1.18)	(1.30)	(1.26)	(1.56)
Industry (Finance = ref.)				
Metallurgy	1.21	0.78	1.21	
	(0.75)	(0.74)	(0.76)	
Retail	0.13	-0.40	0.18	
	(0.70)	(0.71)	(0.72)	
Construction	0.53	0.04	0.58	
	(0.72)	(0.75)	(0.74)	
Food	-0.07	0.03	-0.01	
	(0.65)	(0.63)	(0.66)	
Petroleum	0.53	0.29	0.55	
	(0.88)	(0.88)	(0.90)	
Chemical	-0.77	-0.74	-0.72	
	(0.95)	(0.96)	(0.96)	
Communication	-1.04	-0.88	-0.96	
	(1.30)	(1.30)	(1.34)	
Transportation	0.45	0.38	0.48	
	(1.03)	(1.05)	(1.05)	
Machinery	1.97*	1.65	2.09*	
	(0.92)	(0.93)	(0.95)	
Agriculture	1.92	1.17	2.07	
	(1.17)	(1.15)	(1.20)	
Energy	-0.02	0.13	0.16	
	(1.14)	(1.19)	(1.20)	
Other	2.70**	2.21	2.82**	
	(1.03)	(1.26)	(1.07)	
Year fixed effects				
2003			-0.26	
			(0.54)	
2005			0.33	
			(0.35)	
2008			0.94	
			(0.60)	

Table S4. Year indicator variables' effects on propensity to have a political connection

	Estimate
Year (2003 = ref.)	
2004	-0.01
	(0.52)
2005	-0.14
	(0.49)
2006	-1.00*
	(0.48)
2007	-1.30*
	(0.65)
2008	-0.62
	(0.66)
2009	-1.95**
	(0.67)
2010	-2.15**
	(0.68)
Connection previous year	9.40***
	(1.05)
Log fortune	2.61*
	(1.33)
Industry fixed effects	included

Table S5. Interactive effect of time and assets on having a political connection

	Estimate
Time trend	-1.92***
	(0.57)
Log fortune	3.63*
	(1.70)
Fortune * Time	-4.26
	(3.12)
Connection previous year	9.37***
	(0.99)
Industry (Finance = ref.)	
Metallurgy	1.18
	(0.75)
Retail	0.10
	(0.71)
Construction	0.49
	(0.73)
Food	-0.10
	(0.65)
Petroleum	0.51
	(0.88)
Chemical	-0.79
	(0.95)
Communication	-0.99
	(1.33)
Transportation	0.46
	(1.05)
Machinery	2.00*
	(0.93)
Agriculture	1.95
	(1.18)
Energy	-0.15
	(1.15)
Other	2.77**
	(1.04)