

## CHAPTER 7 ECONOMIC ELITES AND DOMINANT PARTY AFFILIATION

According to the theory advanced in this book, dominant parties are more likely to emerge when neither elites nor leaders hold a preponderance of political resources. As noted in Chapter 6, this argument contains implications about the individual behavior of elites. In a setting where leaders are becoming stronger relative to elites, we would expect to observe that elites with significant stores of political and economic resources will be less likely to join the nascent dominant party. In Chapter 6, I examined this hypothesis and demonstrated that Russian governors strong in such resources were more reluctant to join United Russia. In this chapter, I extend the analysis of dominant party affiliation to economic elites who hold seats in Russia's regional legislatures.

Almost half of Russian regional legislators are directors of firms in the region and most of the major firms in a region are usually represented in the regional legislature. Thus, this analysis provides a way to assess the dominant party affiliation calculus of Russia's business elite. I argue that legislators who work in sectors of economy that are more vulnerable to state pressure lack the autonomous resources that allow them to eschew United Russia faction membership. This leads to four hypotheses. First, deputies who represent businesses that are state-owned will be more likely to join the ruling party. Second, those who represent businesses whose primary assets are immobile and thus easy to tax or regulate (e.g. natural resource extraction, heavy industry, and mining) should have been more likely to join United Russia. Third, deputies whose businesses are more affected by regulatory and state procurement policies should have been more likely to join United Russia. Finally, because businesses that are large are

easier to monitor, regulate, and tax, deputies who represent large companies should be more likely to join United Russia.

This chapter contributes to testing the theory laid forth in this book because it demonstrates the operation of one of the key causal mechanisms that I have put forward. If individual elites strong in resources are more reluctant to join an emergent dominant party, then we have additional reason to believe that the process of dominant party formation is dependent, at least in part, on elite incentives to invest in a dominant party.

Beyond the theory in this book, this chapter also has broader implications for how scholars understand the political economy of regime transition. Various authors have argued that democracy is more likely to emerge in market economies (Lindblom 1977, Dahl 1989). McMann (2006) argues that economic autonomy from the state (i.e. employment in the private sector) provides citizens with the freedom to engage in political activity without fear of political reprisal. Greene (2010) has argued that a large public sector provides authoritarian incumbents with ample patronage resources, while a small public sector limits those opportunities. Arriola (2012) has cleverly illustrated how financial liberalization made it easier for opposition forces in Africa to get access to the capital necessary to fund their opposition to the regime.

My approach also holds to the notion that large public economies entrench authoritarian rule, but I offer another causal mechanism for this relationship. Large public economies undermine democracy because they make economic *elites* reliant on

the state.<sup>1</sup> This vulnerability to repression, sanction, taxation, and regulation increases their incentives to remain politically loyal to the regime.

The theory and findings in this chapter also demonstrate how the structure of a country's economy affects its prospects for democratization. A core finding of the economic literature on democratization is that countries with economies characterized by immobile assets—i.e. land, large factories, natural resources, and the like—are less likely to democratize. Since assets that are difficult to relocate are especially vulnerable to taxation, some argue that holders of immobile assets will be more likely to subvert democratization because they fear that the poor will demand redistribution in the wake of free and fair elections (Boix 2003, Acemoglu and Robinson 2006). Scholars who study the effects of natural resources on politics take another view, arguing that natural resources generate rent revenues, which allow autocrats to buy public support (Ross 2001). At the same time, much of the neo-institutional literature on authoritarianism takes the view that because dictators with access to resource rents can buy social support, they do not invest in the institutions that could make their rule robust to challenges (Smith 2005, Gandhi 2008).

My account embraces this ambivalence about the role of resource revenues, focusing on a different mechanism by which resource rents can affect a country's prospects for democratization. On the one hand, natural resource rents may reduce incentives for leaders to coopt elites and build dominant party institutions. This is true when leaders are strong relative to elites. On the other hand, when leaders are in a vulnerable position vis-à-vis elites, a natural resource-based economy can make the

---

<sup>1</sup> Thus, this perspective is similar to Radnitz's (2010) account of how post-Soviet countries that engaged in large scale privatization saw the rise of powerful capitalist classes whose interests sometimes led them to challenge the regime.

regime more robust. Because elites that own or control natural resource firms are more dependent on the state, the presence of natural resources makes key economic elites loyal to the ruling party, thus reducing the potential for elite schisms. This is the environment that accompanied the construction of United Russia in the early 2000s and it is the environment that is analyzed in this chapter.

This chapter also has important implications for how scholars think about Russian political institutions in the Putin-era. My approach suggests that the commodity price boom, which transformed the Russian economy, strengthened Putin's hand. It did so not just because it allowed Putin to buy social support with large-scale social spending projects or because it spurred a decade of sustained economic growth, but also because it expanded the role of the natural resource sector in the economy and made the business community more dependent on the state.

The rest of this chapter proceeds as follows. The next section discusses the data that is used to test the hypotheses. This data comes from an original database that contains information on both the legislative faction membership and occupational backgrounds of 1958 deputies in 53 Russian regional legislatures from 1999-2005. Section 7.2 discusses the research design for testing the hypotheses. Section 7.3 discusses the results of the analysis and Section 7.4 concludes.

### **7.1 The Dependent Variable: Regional Legislators**

Why should an analysis of dominant party affiliation behavior look at regional legislators? First, the composition of a regional legislature is a vivid cross-section of the most important elite groups and actors in a region. This is especially true of business

elites. The most prominent figures in the regional economic elite---directors of the largest industrial and agricultural enterprises, representatives of large federally-owned corporations and directors of major hospitals and research institutes---are all likely to be members of (or have representatives in) their region's legislature. In my sample of regional legislators in the early and mid 2000s (discussed below), 55% of all lawmakers were employed full time in business. And this number surely underestimates the total number of business-affiliated deputies, for it only includes those deputies whose full-time place of employment (as listed in official biographies) is in business. It excludes 'professional politicians' (14%), many of whom are likely to have come out of business or have financial interests at stake. Of those deputies who represent business, 82% are the general director, chairman of the board of directors, or president of their companies. The representation of important economic interests in regional parliaments sets these legislatures apart from Soviet legislatures where representation was based on class quotas and key economic interests were absent (Vannemen 1977).

Indeed, a plausible defense could be mounted for treating businesses, rather than individual deputies, as the unit of analysis in regional legislatures. In my sample of 1,958 deputies in 43 regions, there are 70 separate instances of multiple deputies representing a single enterprise or group within a legislature and in only 12 cases did the delegation split between joining and not joining United Russia. Thus, dominant party affiliation decisions may be made at the enterprise level as much as they are made at the individual level. Thus, examining the party affiliation behavior of regional deputies affords a simultaneous glimpse into the party affiliation behavior of economic elites.

A second reason for examining Russian regional legislatures is practical. Given that the hypotheses in this chapter make predictions about when elites join United Russia, we require an arena where data on partisan affiliations are available. While many members of the elite carry partisan affiliations, information on those affiliations is not public and is difficult to gather. For legislators, the matter is simplified by the fact that legislative factions make plain each deputy's partisan loyalties. Finally, regional legislatures provide a much larger number of potential observations than the State Duma.

To analyze the relationship between resources and dominant party affiliation I have assembled a dataset that contains the legislative faction membership of 1,958 deputies in 53 convocations of 44 Russian regional legislatures elected between 1999 and 2005.<sup>2</sup> The early 2000s was a formative time in United Russia's history and an optimal period in which to test the implications of my theory of dominant party formation. During this period United Russia's dominance was on the rise and the Kremlin's commitment to it was deepening, but the future of the party was still far from certain. Thus, this time period provides a brief window into the key moment when elites were making substantive decisions about their party affiliations.

Conducting the analysis in an earlier time period would be inappropriate for this was a time when exceedingly few deputies were members of any faction, let alone United Russia. In the 1990s, Russian regional elections were overwhelmingly non-partisan affairs. Golosov (2003) shows that only 14% of regional deputies elected in the third regional electoral cycle (1999-2003) were party nominees.<sup>3</sup> Party labels rarely carried

---

<sup>2</sup> Table 7.1 below provides a list of the convocations.

<sup>3</sup> This was actually less than the percent of party nominees (21%) elected in elections held between 1995 and 1999.

over into legislative organization. Indeed, prior to 2003, many Russian regions explicitly banned the formation of formal legislative factions in their legislatures.

In December 2003, legislation went into effect that required all regions to elect at least 50% of their chambers on party lists. Prior to this reform, nearly all regions elected their deputies in single-member districts (SMDs). With increasing Kremlin investments in United Russia and the move to mixed electoral systems after 2003, regional legislatures began changing their charters to permit factions and legislators began forming groups at a faster rate. In most legislatures, factions formed before new elections were held. Glubotskii and Kynev (2003) find that, by mid-2003, over 50% of regional deputies were members of a legislative party or group.

In most regions, the largest legislative faction was United Russia. In my sample, 32% of deputies in 2003 and 2004 were members of United Russia factions. In 2005, that proportion was 47%. By late 2007, all but five regional legislatures had United Russia majorities. Thus, the sheer dominance of United Russia after early 2006 makes those elections less useful for studying the decisions of elites to join United Russia. With almost all SMD deputies seeking United Russia affiliation, there would be less interesting variance to analyze—especially for a study of dominant party emergence. In sum, the period from 2000-2006 covers the entire period from the founding of United Russia up until the point at which it became so dominant that there is little usable variation in elite affiliation strategies.

The analysis focuses on SMD deputies with the exception of the data for Kirov Oblast where legislators were elected in two member districts in 2001. Thirty-three of the convocations in the sample were elected purely in SMDs before the 2003 electoral

reform. Twenty were elected after the electoral reform under mixed systems and one, Krasnoyarsk, was elected in 2001 via a mixed system. For Krasnoyarsk and the twenty-three post-2003 convocations, I focus only the party affiliation decisions of SMD deputies.<sup>4</sup>

For the elections occurring prior to the electoral reform, there is no choice but to focus the analysis on SMD deputies. For elections occurring under mixed systems, I focus only on SMD deputies for several reasons. Most importantly, party list deputies enter the chamber with an existing party affiliation. My research design is set up to analyze the behavior of previously unaffiliated deputies, and while some deputies elected on opposition party lists defected to United Russia factions in 2004 and 2005, the most significant migrations into United Russia (and other parties for that matter) were by previously unaffiliated SMD deputies.<sup>5</sup> Thus, SMD deputies are both a more appropriate units of analysis and exhibit more interesting variation.

The year of analysis is the first year for which data is available on the faction composition of that convocation. As noted above, almost all deputies in elections prior to December 2003, were elected as independents. Between 2001 and 2007, party factions were created in most of these legislatures. In all such cases, a United Russia faction emerged. Some deputies joined this faction, while others remained independent or joined opposition factions. I analyze variation in the decisions of deputies to join the dominant party faction when it is first established. For example, regional elections were held in Murmansk Oblast in 2001 in single member districts. All deputies were independents

---

<sup>4</sup> All analyses below are robust to excluding the post-2003 convocations.

<sup>5</sup> In my sample, there is no instance of a United Russia party list deputy leaving the party faction and remaining in the legislature (i.e. some leave upon death, illness, or transfer to another position). Analyses of party defections in other post-Soviet legislatures have shown that party-switching is much higher among SMD deputies (Herron 2002, Thames and Edwards 2006).

and served as such until May 2003. At that time, three factions were created, including a United Russia faction. For Murmansk, I analyze variation in the dominant party affiliation behavior of deputies in May 2003, when the new factions were created. For elections after 2003, I also analyze variation in faction affiliation on the date when factions formed, but this usually occurred immediately after elections were held.

Table 7.1 shows the percent of SMD deputies in a region that were United Russia members at the time of analysis. Many of these figures appear low for a dominant party, but it is important to remember that these numbers reflect the percentage of deputies that joined early in the party's existence just as it was becoming dominant.

[Table 7.1 Here]

Data on the faction composition of legislatures was collected from the archived websites of regional legislatures, where available. Since this information is archived for only a small handful of legislatures (most provide only the current faction composition of the legislatures), I gathered much of the data in person (or via telephone and fax) from the apparatus of various legislative assemblies. These data were collected on research trips to the regions in the summers of 2008 and 2009. The raw data contains the faction membership of deputies and their biographical information.

Faction membership is an imperfect proxy for commitment to the dominant party. A better indicator would be formal party membership or, better still, a detailed analysis of each legislator's financial contributions to the party, his voting record, and behavior during elections. Unfortunately, such data are not publicly available. Nonetheless,

faction membership is likely to be a necessary (but not sufficient) condition for party membership. Very few party members are likely to forego membership in the faction, but many non-party members are likely to participate in the faction. Nonetheless, my interviews with regional parliamentary deputies indicate that United Russia factions have placed very strict restraints on their members voting behavior. Most indicated the presence of near perfect voting discipline. This indicates that joining the United Russia faction necessitates the relinquishing of legislative autonomy and is a useful proxy for commitment to the party institution as a whole.

## **7.2 Resource Ownership and United Russia Faction Membership**

There are few studies of elite party affiliation in the Putin era. Using surveys of firm directors from the 1990s, Frye (2003, 2006), finds that older directors, those in state enterprises, and those with a stagnant or shrinking workforce are less likely to vote for pro-market parties. Also focusing on the 1990s, Hale (2006) finds that Duma candidates supported by gubernatorial political machines and those supported by financial industrial groups are more likely to eschew partisan affiliation during elections. Smyth (2006) reaches a similar conclusion, arguing that candidates who own businesses are less likely to join parties because their business structures provide the financial and organizational resources that parties would otherwise provide.

The approach pursued in this chapter is similar to these studies but differs in several important ways. In contrast to Frye (2003, 2006), but in line with Smyth (2006) and Hale (2006), this study focuses on the actual party affiliation behavior of elites, not on their voting behavior. As I have argued, the imperatives of political survival under

authoritarianism often lead elites to join parties for reasons that have little to do with their personal ideological preferences. In contrast to Hale and Smyth, this study focuses not just on the binary decision to accept any partisan affiliation, but on the specific decision to join the dominant party. Thus, I also examine why deputies chose to join United Russia as opposed to an opposition party. Finally, in contrast to existing work which focuses on the fragmented political space of the 1990s, I focus on the party affiliation decisions of elites under an emergent dominant party regime.

In line with existing accounts, I argue that elites value partisan affiliation because parties provide access to organizational resources and a brand that may help them get elected. However, as noted in Chapter 2, my account also stresses other benefits that are specific to affiliation with the ruling party, such as access to spoils and reduced uncertainty about the provision of those spoils. I also share the existing literature's emphasis on autonomy as a goal pursued by politicians. Loss of political autonomy is the major cost associated with accepting a partisan affiliation. But in my account, politicians not only value autonomy from partisan organizations during elections, but also autonomy from state control.

The primary hypothesis examined in this chapter is that deputies with significant autonomous resources were more reluctant to join United Russia. The resources that matter for this analysis are those that allowed deputies to leverage their personal political machines, clientelist networks, and economic autonomy against inducements to join the regime party. Elites value autonomy highly for it is synonymous with the pursuit of self-interest. Autonomy provides political elites with the freedom to pursue their self-interest, should their interests come into conflict with those who would seek to limit their

autonomy (i.e. the Kremlin or a powerful governor). Those with autonomous resources that are sufficient to ensure their political survival independent of the state are more likely to have resisted joining United Russia. In the sections below, I describe how the autonomous resources of many deputies depend on the nature of their business affiliations. As Table 7.2 indicates, more than half of deputies report a business affiliation as their primary place of work.

[Table 7.2 Here]

McMann (2006) has argued that economic autonomy (i.e. employment in the private sector) provides citizens with the freedom to engage in political activity without fear of political reprisal. Here I take a similar stance: economic autonomy permits deputies to maintain their political autonomy. Those factors that reduce the economic autonomy of businessperson deputies will increase their incentives to join United Russia factions.

I argue that two related factors affect the economic autonomy of businessmen. First is the extent to which their enterprise is vulnerable to state pressure, taxation, and/or sanction. The second is the extent to which contact with the state (e.g. obtaining permits, securing subsidies, achieving favorable regulations) is required for conducting business. Such firms are state-dependent.

One straightforward determinant of state dependence is ownership structure. State-owned firms are easier to tax and control (Gehlbach 2006, Tedds 2007). Though all

firms are vulnerable to political interference, state firms are decidedly more so. This leads to the following hypothesis:

*H1: Deputies from private sector enterprises will be less likely to join United Russia.*

A second determinant of state dependence is sector. Firms engaged in natural resource extraction, heavy industry (refining, metallurgy, and heavy machinery), and agriculture are likely to be more state dependent than firms engaged in light industry, trade and services. Firms in these sectors are characterized by immobile assets and, thus, are more vulnerable to taxation and predation (e.g. Boix 2003). Tax avoidance has been a major problem for the post-communist Russian state (Yakovlev 2001, Gehlbach 2006, Easter 2012). The authorities have reacted by crafting a revenue extraction system based on taxing firms, and in particular, large firms in asset-immobile sectors that find it difficult to hide or reroute their revenues (Easter 2012) Indeed, asset immobility leaves firms in these sectors vulnerable not only to taxation but also to regulation and coercion.

[Table 7.3 Here]

This expectation is partially validated by the EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS), which surveys 9,000 firms in post-communist and southern Europe. This survey includes a question that asks whether an enterprise has been visited by the tax authorities in the last year. I use this item from the 2005 wave to determine whether firms in the manufacturing sector engage with the tax authorities more than service sector firms. The results in Table 7.3 show that, in the

post-communist region, even when controlling for the size of the firm (as measured by their total sales), firms in the manufacturing sector are 15% more likely than service/trading sector firms to be visited by the tax authorities.

*H2: Deputies in firms characterized by immobile assets will be more likely to join United Russia*

The sector of a deputy's firm is also important because it determines how the business interfaces state. Some firms, such as those in the defense industry and in construction, rely heavily on state contracts for their business. Firms in some sectors are also more likely to have to sell their goods through government bottlenecks or are ensconced in production chains that link to state-controlled bottlenecks. Firms in the natural resource sector, mining, and metallurgy often fall into this category. In addition, while all firms must endure a certain amount of state regulation to conduct business, some firms engage in business activity that makes them intrinsically subject to additional rules and regulations. This is especially true of the construction industry, which must contact with the state to secure building permits and successfully reach deals with municipal utilities. This weakens their economic autonomy.

*H3: Deputies in firms whose business activities depend on contact with the state will be more likely to join United Russia*

Another determinant of state dependence is firm size. Larger firms are easier to tax and more vulnerable to predation (Easter 2012). Table 7.3 confirms this. This leads to the fourth hypothesis.

*H4: Deputies from larger firms will be more likely to join United Russia.*

### 7.3 Models and Results

The first dependent variable I analyze is a dummy variable equal to 1 if the deputy joins the United Russia faction and 0 if the deputy is not. The key independent variables are a series of binary indicators that describe features of the deputy's occupation at time of election. Data on the occupations of deputies was taken from the deputy's official biographies and, where applicable, from the Russian Central Election Commission. The deputy's occupation was then coded across several professional categories. For businessperson deputies, data on the ownership structure, sector, and yearly revenue of the enterprise were collected for the author by SKRIN Ltd., a private market analysis firm in Moscow that has access to Goskomstat registries of balance sheet information for all enterprises in Russia.<sup>6</sup>

Given the dichotomous dependent variable, I use binary logit models.<sup>7</sup> To account for unmodelled time effects that affect the propensity of all deputies to join United Russia, I include biannual fixed effects.<sup>8</sup> Table 7.4 shows the results. Model 1 includes both businessperson deputies and non-businessperson deputies in the analysis.

[Table 7.4 Here]

---

<sup>6</sup> I classify businessperson deputies are those are those in upper management. Usually, they are directors. Workers and middle management are not classified as businessperson deputies. Such legislators (3% of the sample) are given their own professional category in the full model. Many of these legislators are from the KPRF, which continues the communist tradition of class-based representation and sometimes selects workers as legislative candidates.

<sup>7</sup> I do not use fixed effectuse because, in six regions, the dependent variable would not vary in the businessperson-only models, because all businessperson deputies are UR members. In addition, several important control variables do not vary across regions.

<sup>8</sup> Using year-fixed effects needlessly drops a handful of post-2005 observations where UR membership does not vary among businessperson. Nonetheless, results are robust to using both yearly fixed effects and a time trend.

The results are largely consistent with the hypotheses. Hypothesis 1 is supported, as deputies in the private sector are, on average, nine percentage points less likely to join United Russia. Turning to the sectoral hypotheses, the table shows that deputies in asset specific sectors—*Oil/Gas, Heavy Industry, Mining/Timber*— are more likely to join UR. Thus, as predicted, deputies in sectors that are vulnerable to taxation, regulation, and predation are more likely to join the ruling party. Table 7.5 shows the descriptive breakdown of UR faction membership among employment sectors.

[Table 7.5 Here]

One thing to note about the tables is that deputies in business are, on the whole, more likely to join United Russia than non-business deputies. This stands at odds with some of the literature on party affiliation in post-Soviet Russia, which argues that business affiliations provide candidates with substitute resources that allow them to eschew partisan affiliation (Smyth 2006, Hale 2006). These results are a reminder about the benefits of affiliating with the dominant party. For businessperson deputies, affiliating with United Russia brings access to lobbying influence that is essential for their business. Journalists, social activists, academics, and the like have fewer lobbying goals. To be sure, some categories of non-business deputies are especially dependent on the state, and as such, are more likely to seek UR affiliation in order to protect or further their careers. Thus, we see that deputies who work in the *BudgetSphere* are more likely than the average deputy to join United Russia.

Separating Hypothesis 3 from Hypothesis 2 is not straightforward because most asset specific sectors are also sectors whose business activities are intertwined with the state. One important exception is the *Construction* sector, which is not asset specific, but whose business activities are closely intertwined with the state. The results show that deputies in the *Construction* sector are more likely than any other type of deputy to join UR. This indicates support for Hypothesis 3.

Overall, the results on the sectoral dummies indicate support for the notion that the dependence of a firm on the state, whether due to asset immobility or the necessity of interaction with the authorities, increases the chances that deputies affiliated with that firm will join UR. But several caveats and exceptions are worth noting. One potentially intriguing finding in this table is that deputies from the utilities/energy sector are not any more or less likely to join United Russia. Until very recently almost all utilities were state-owned and thus dependent on the state. Simultaneously, however, it is important to remember that the Russian electricity monopoly RAO-Unified Energy Systems was headed until its dissolution by moderate opposition figure, Anatoly Chubais. Indeed, a look at the data reveals that almost all deputies representing RAO UES affiliates in the regions eschewed joining United Russia and most were members of SPS, Chubais's political party. This finding highlights the importance of personal connections and informal clientelist networks. Despite their dependence on the state, these deputies could rely on a powerful liberal patron who was not affiliated with United Russia.

Another intriguing result is that the directors of collective farms (the vast majority of those deputies employed in the agricultural sector) were not more likely to join the United Russia faction in their regions. In fact, as Models 2-5, they may even have been

less likely to join UR. Given that agricultural land is an immobile asset, this finding is puzzling in light of the discussion above. However, it is important to remember the political dimension of deputies' decisions as well. As Henry Hale (2003) has shown, collective farm directors have at their disposal very powerful political machines, resources that can be leveraged against dependence on United Russia. It is also possible that collective farm directors are inherently more leftist in their ideology (or their constituents are more leftist), making it more difficult for them to join a center-right ruling party. This finding also aligns empirically with the initial difficulties that United Russia faced in consolidating its position in rural organs of local self-government.

The results on the control variables are also of note. In particular, the positive and significant coefficient on *MoscowBasedBusiness* indicates that deputies from Moscow-based businesses—i.e. businesses with headquarters in Moscow that have branches in the regions—are more likely to join UR. This suggests that geographic distance increases the autonomy of enterprises from centralized political control.

In addition, deputies are more likely to join UR when the regional governor is already a member, as the positive and significant coefficient on *GovernorMember* indicates. This is not surprising given the importance of the regional executive branch in regional politics. If the governor is a member of UR, legislators have added incentives to demonstrate their loyalty by joining.

The other control variables exert no effect on the probability of a deputy joining United Russia. *Incumbent* deputies are not more likely to join. An alternative hypothesis about deputy's decisions to join UR is coercion. One might conjecture that deputies will feel more compelled to join UR in regions that are less liberal or where political

repression is more common. One proxy for this is level of *PressFreedom* in the region, but we see here that it has no effect on the propensity of deputies in a region to join UR. Another proxy is ethnicity. Russia's ethnic regions are, as a rule, more autocratic. But again, the percent of Russians living in a region has no effect on the propensity of deputies to join UR.

Some of the asset-mobile sectors, such as *Services*, are statistically significant in Model 1. But this is due to the fact that the reference category in Model 1 is the non-businessperson category, *ProfessionalLegislator*. In Model 2, I restrict the analysis to businessperson deputies and use *LightIndustry* as the reference category. Here we see that deputies in asset immobile sectors and sectors that conduct business with the state are much more likely to join UR. For example, deputies in *HeavyIndustry* are 13 percentage points more likely to join UR than deputies in *Light Industry*. Deputies in *Construction* are 16 percentage points more likely to join UR. However, the coefficient on *Oil/Gas* and *Mining/Timber* fall short of statistical significance. I discuss the insignificance of the former in more detail below.

Hypothesis 4 was not tested in Models 1 and 2 because data on the size of firms—as measured by their revenue—is missing for a large part of the sample. In Model 3, I include the firm's revenue as a predictor.<sup>9</sup> There is some support for Hypothesis 4—the coefficient on *Revenue* is positive—but the coefficient falls slightly short of statistical significance ( $p=.114$ ). Since Revenue is highly negatively skewed and contains a number of outliers (i.e. very large companies such as Russian Railways or Gazprom), it makes sense to transform the variable. Model 4, therefore, uses the natural log of revenue as a

---

<sup>9</sup> As discussed below, *Revenue* is missing for a sizeable portion of the sample. In order to conserve sample size, I exclude *Incumbent*—a variable that is also missing for some observations—from models that include Revenue as a predictor.

measure of firm size. The coefficient is positive and statistically significant. Increasing *FirmSize* from the 10<sup>th</sup> to the 90<sup>th</sup> percentile increases the probability of a deputy joining UR by 16 percentage points.<sup>10</sup> In this model both Private Enterprise (p=.157), Heavy Industry (p=.163), and Mining/Timber (p=.361) lose statistical significance. This occurs two reasons. First, firm size is correlated with both ownership structure and with asset-specificity. Second, revenue is missing for a sizable portion of the sample so the sample size drops considerably in Models 3 and 4. This is a problem not only for statistical efficiency, but also because *Revenue* is not missing at random. It is more likely to be missing for smaller firms, non-publicly traded firms, and firms in certain sectors. This has the potential to bias results. To address this, I use multiple imputation to estimate and replace missing values of *Log Revenue*. Specifically, I use multiple imputation with chained equations with 50 imputations (using the `mi impute chained` routine in STATA 14).<sup>11</sup> Results are similar using the multivariate normal algorithm. Model 5 shows the results of models that impute missing values on *Log Revenue*. *Log Revenue* remains statistically significant and positive. *Private Enterprise* and *Heavy Industry* return to statistical significance. *Mining/Timber* remains positive, but does not return to statistical significance and *Oil/Gas* remains positive but statistically insignificant.

Table 7.5 models the decision to join UR as a binary one: join the dominant party or remain outside it. But deputies who remain outside UR have two distinct options. They can remain independent of any party, a very common choice in post-communist Russia, or they can join another party faction. Indeed, one potential concern with the

---

<sup>10</sup> Results are similar using a square root transformation.

<sup>11</sup> The imputation model contained all the right hand side covariates in Model 4 as well as the dependent variable in Model 4 and region dummies. Estimating this model as an OLS with the observed data gives an R-squared of .52. The imputation model converged easily.

models above is that I am conflating the choice to join UR with the choice join any party, such that my results speak to the general calculus of party affiliation and not the more specific calculus of dominant party affiliation. Thus, we would like to examine how the dependence of a deputy's enterprise on the states affects their decisions to join United Russia versus some other political party.

One way to achieve this is to model the affiliation decision as a trichotomous dependent variable and model affiliation decision with an unordered choice model, such as a multinomial logit. Another option is to create separate dependent variables and estimate separate models. In order to make substantive results comparable with previous results, I choose the latter strategy. Table 7.6 shows the results of six binary logit models. In the first three columns the dependent variable is equal to 1 if the deputy joined UR and 0 if the deputy joined another party faction. Thus, this model examines how covariates affect the decision to join UR as opposed to another opposition party. In last three columns of Table 7.6, the dependent variable is 1 if the deputy joins UR and 0 if the deputy remains independent of any party faction.<sup>12</sup> Model 3 and 6 impute missing values on *Log Revenue*.

[Table 7.6 Here]

The results indicate that the main results are not driven simply by the decision to join a political party. As the results in Models 1-3 indicate, the same factors that made deputies more likely to join UR in Table 7.4 also increase their likelihood of choosing UR over

---

<sup>12</sup> Results are substantively and statistically similar using a multinomial logit model. However, the multinomial logit estimates are more efficient, with lower standard errors.

another party. In fact, several of the sectoral variables---including *Oil/Gas* and *Mining/Timber*—have larger positive coefficients in these models than in Table 7.4. The coefficients on these variables are statistically significant in Models 1 and 2 and fall just short of statistical significance in Model 3 ( $p=.133$  and  $p=.127$ , respectively). By contrast, the marginal effect of these variables is much lower in Models 5 and 6. In general, results on the sectoral variables of interest are stronger in Models 1-3. Deputies in asset-specific sectors appear particularly unlikely to join party factions that are not UR. Deputies in the construction sector, however, appear more likely to choose UR over remaining independent than they are to choose UR over another party. But the coefficients are positive and statistically significant in both sets of models.

The coefficient on *Private Enterprise* remains positive in all models, but it drops slightly below conventional statistical significance levels in some models. In general, standard errors are much higher in these models because splitting the dependent variable results in a lower number of observations in each model. There does not appear to be major differences in the effect of this variable between Models 1-3 and Models 4-6. Finally, the size of the firm has a positive and statistically significant effect in both sets of models. Deputies in larger firms are more likely to choose UR over another party and they are more likely to choose UR over remaining independent.

Overall, hypotheses 1, 3, and 4 are well supported and there is suggestive evidence in favor of hypothesis 2. Across multiple specifications, it was found that deputies in the private business sector were less likely to join UR factions. Deputies from smaller firms were also clearly less likely to join UR. The sectoral hypotheses require more careful interpretation. It is clear in all statistical specifications that deputies in the

*Construction* sector, who businesses must interact frequently with the government, are more likely to join UR. In addition, deputies in asset specific sectors—*Oil/Gas*, *Heavy Industry*, and *Mining/Timber*—are more likely than the average deputy to join UR. But companies in these sectors are also large and once we include a measure of firm size in the models, *Oil/Gas* and *Mining/Timber* lose statistical significance. Thus, we are unable to definitively conclude that deputies in these sectors eschew UR affiliation because of the nature of the sector—it could be due to the size of the enterprise. However, the coefficient on *Heavy Industry* remains statistically significant even when controlling for firm size. This suggests that asset mobility does play some role.

#### **7.4 Discussion and Conclusion**

This chapter has used evidence from Russia to contribute to our understanding of dominant party origins. Dominant parties sometimes do not emerge because elites cannot commit themselves to such a party. This was the case in Russia in the 1990s and early 2000s. This chapter examined in more detail the claim that elites make their dominant party affiliation decisions on the basis of the resources available to them. Those with autonomous resources cannot commit themselves to joining the party, while those lacking in such resources can. If individual elites strong in resources are more reluctant to join an emergent dominant party, then we have additional reason to believe that the process of dominant party formation is dependent, at least in part, on elite commitment.

Using data on the faction membership of Russian regional legislators, this chapter provided evidence for this proposition. The primary finding was that those employed in state-dependent enterprises were more likely to affiliate with United Russia. Deputies who are dependent on the state for their livelihood were more likely to join the party.

Among businessperson deputies, those from the state sector were more likely to join, as were deputies in large firms, which, by virtue of their size are easier to tax and pressure. The multivariate analysis also reveals that deputies from more asset immobile sectors (heavy industry, in particular) are more likely to have joined United Russia than those engaged in industries such as services, trade, and light manufacturing. Deputies in asset immobile sectors know that their firm is vulnerable to state pressure, so they have less autonomy. I also found that deputies in the construction sector were more likely to join UR, as firms in that sector must maintain good relations with the state in order to win state contracts and secure permits.

The findings in this chapter provide new insight into the link between economic liberalization and democracy. In line with several recent works (McCann 2006, Greene 2010, Radnitz 2010, Arriola 2012), this chapter argues that economic liberalization can lead to democracy. But in contrast to these works, the approach in this chapter focuses on how economic liberalization frees economic elites from state dependence and undermines the construction of a ruling party.

This chapter also contributes to debates about how the nature of economic assets in a country affects democratization. Some of the most influential recent studies of democratization argue that holders of immobile economic assets subvert democratization because they fear that free and fair elections will lead to redistribution (Boix 2003, Acemoglu and Robinson 2006). Scholars of the natural resource curse point to a different causal mechanisms, arguing that natural resources revenues allow autocrats to buy public quiescence (Ross 2001).

My account focuses on a different way that resource rents can affect a country's prospects for democratization. When leaders are in a vulnerable position vis-à-vis elites, a natural resource based economy can strengthen the regime by ensuring the loyalty of key economic elites. Because elites that own or control natural resource companies are more dependent on the state, natural resource rents make elites loyal to the ruling party, thus reducing the potential for elite schisms.

Finally, with respect to Russian politics, the findings in this chapter provide insight into also into the relationship of business to United Russia. Regional legislators join United Russia to lobby for their interests. Deputies from business can secure privileges and rents for their enterprises. In the 1990s and early 2000s, these deputies achieved these goals via ad hoc deals with governors and federal ministries. Today this process has been institutionalized within the United Russia factions of regional legislatures. Managing this patronage is one of the party's major functions at the regional level.

**Table 7.1: Convocations Used in Analysis**

<b>Region</b>	<b>Year Convocation Elected</b>	<b>Year of Analysis</b>	<b>Percent of Deputies in UR</b>
North Ossetia	1999	2001	11%
Vladimir obl	2000	2001	29%
Kostroma obl	2000	2002	45%
Yaroslavl	2000	2002	41%
Arkhangelskaya obl	2000	2002	33%
Kaliningradskaya obl	2000	2001	48%
Kurgan	2000	2002	30%
Yamalo-N	2000	2003	48%
Chita obl	2000	2003	21%
Agin-Buryat AO	2000	2003	69%
Sakhalinskaya obl	2000	2002	25%
Moscow city	2001	2003	54%
Murmanskaya obl	2001	2002	38%
Adygei Repub	2001	2003	30%
Stavropol kr	2001	2002	40%
Kirov	2001	2003	53%
Perm	2001	2002	59%
Samara	2001	2002	48%
Tyumen	2001	2002	68%
Krasnoyarsk	2001	2002	38%
Novosibirsk	2001	2003	36%
Tomsk oblast	2001	2003	55%
Amurskaya obl	2001	2002	17%
Smolensk obl	2002	2002	53%
Karelia	2002	2003	27%
Pskov	2002	2003	25%
St. Petersburg	2002	2002	30%
Chuvashia	2002	2002	38%
Nizhegorodskaya	2002	2003	50%
Yakutiya	2002	2002	46%
North Ossetia	2003	2003	40%
Udmurtia	2003	2003	68%
Ulyanovsk	2003	2004	50%
Yaroslavl	2004	2004	48%
Arkhangelsk	2004	2004	64%
Karachaev-Ch	2004	2004	66%
Tatarstan	2004	2004	78%

Kurgan	2004	2004	86%
Khakassiya	2004	2004	44%
Irkutsk obla	2004	2004	57%
Chita Obl	2004	2004	25%
Sakhalinskaya_obl	2004	2004	58%
Belgorod	2005	2005	77%
Voronezh	2005	2005	91%
Kostroma	2005	2005	50%
Ryazan	2005	2005	44%
Tambov obl	2005	2005	84%
Tver obl	2005	2005	86%
Yamalo Nenetsk	2005	2005	70%
Chelyabinsk	2005	2005	93%
Novosibirsk	2005	2005	83%
Khabarovskii krai	2005	2005	92%
Amurskaya obl	2005	2005	38%
Magadan	2005	2005	88%

**Table 7.2: Professions of Regional Deputies**

<b>Professions</b>	<b>Percent of Sample</b>
Business	55%
Full-Time Legislator	14%
Budget Sphere	11%
Municipal Government	5%
Social Organization	5%
Academia	4%
Other/Worker	3%
Regional Executive	
Branch	2%
Journalist	2%
Military	1%

### 7.3 Logistic Regression Estimates for Effect of Sector on Likelihood of Being Visited by Tax Authorities

---

VARIABLES	(1)
<i>Manufacturing Sector</i>	0.609** (0.099)
<i>Size of Enterprise</i>	0.068** (0.016)
<i>Constant</i>	-0.359** (0.124)
<b>Observations</b>	<b>2793</b>

---

Standard Errors in Parentheses. Manufacturing Sector is compared to services sector.

\*\*p<0.05, \* p<0.1

Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS)

**Table 7.4: Logit Models of Dominant Party Affiliation**

	Model 1	Model 2	Model 3	Model 4	Model 5
<i>Private Enterprise</i>	-0.09** (0.037)	-0.09** (0.039)	-0.07* (0.036)	-0.05 (0.035)	-0.07** (0.35)
<i>Oil/Gas</i>	0.22** (0.063)	0.09 (0.058)	0.08 (0.056)	0.04 (0.059)	0.04 (0.06)
<i>Heavy Industry</i>	0.25** (0.077)	0.13** (0.054)	0.10* (0.052)	0.07 (0.050)	0.84* (0.48)
<i>Mining/Timber</i>	0.23** (0.106)	0.11 (0.075)	0.11 (0.079)	0.07 (0.074)	0.54 (0.64)
<i>Utilities/Energy</i>	0.01 (0.082)	-0.12 (0.081)	-0.08 (0.081)	-0.14* (0.080)	-0.14* (0.78)
<i>Transportation</i>	0.04 (0.072)	-0.08 (0.066)	-0.13** (0.065)	-0.11 (0.067)	-0.09 (0.07)
<i>Construction</i>	0.31** (0.071)	0.17** (0.069)	0.16** (0.066)	0.18** (0.066)	0.18** (0.06)
<i>Agriculture</i>	0.02 (0.074)	-0.10* (0.053)	-0.10** (0.048)	-0.07 (0.048)	-0.07 (0.05)
<i>Services</i>	0.14** (0.054)	0.02 (0.045)	0.03 (0.052)	0.05 (0.050)	0.03 (0.04)
<i>Light Industry</i>	0.12** (0.055)				
<i>Executive Branch</i>	0.03 (0.117)				
<i>Social Organization</i>	0.02 (0.065)				
<i>Budget Sphere</i>	0.13** (0.049)				
<i>Military</i>	-0.04 (0.170)				
<i>Municipal Government</i>	0.08 (0.065)				
<i>Journalism</i>	-0.12 (0.095)				
<i>Other/Worker</i>	-0.07 (0.074)				
<i>Academia</i>	0.02 (0.098)				
<i>Incumbent</i>	0.01 (0.031)	0.06 (0.040)			
<i>Moscow Based Comp.</i>	0.16** (0.079)	0.16** (0.077)	0.08 (0.084)	0.09 (0.084)	0.07 (0.08)
<i>Press Freedom</i>	0.05* (0.031)	0.05 (0.039)	0.04 (0.043)	0.04 (0.042)	0.05 (0.04)
<i>Pct. Russian</i>	-0.00 (0.001)	-0.00 (0.001)	-0.00 (0.001)	-0.00 (0.001)	-0.00 (0.001)
<i>Governor Member</i>	0.12** (0.044)	0.15** (0.056)	0.16** (0.064)	0.16** (0.064)	0.15** (0.06)
<i>Revenue</i>			0.00 (0.000)		
<i>Log Revenue</i>				0.02** (0.007)	0.02** (0.007)
Time Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	1,653	892	780	780	926

Cell entries contain average marginal effects. Standard errors, clustered on region, in parentheses \*\* p<0.05, \* p<0.1  
. Baseline category for occupational dummies in Model 1 is *ProfessionalLegislator*. Baseline category for occupational dummies in Models 2 and 3 is *Light Industry*

**Table 7.5 Sector Employment and United Russia Faction Membership**

<b>Business Sectors</b>	<b>Percent in UR</b>	<b>Non-Business Sectors</b>	<b>Percent in UR</b>
Construction	66**	Budget Sphere	52**
Heavy Industry	63**	Executive Branch	47
Oil/Gas	61*	Professional Legislator	43
Mining/Timber	60	Social Organization	43
Utilities/Energy	46	Municipal Government	42
Services	50	Academia	41
Transportation	49	Military	40
Light Industry	47	Journalist	28*
Agriculture	34*	Other	27**

Stars indicate categories that are statistically different from average in Business and Non-Business Sectors, respectively \*\* p<0.05, \* p<0.1

**Table 7.6: Differentiating Between Party Affiliation Strategies**

	DV: 1=join UR, 0=join another faction			DV: 1=join UR, 0=remain independent		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
<i>Private Enterprise</i>	-0.06 (0.041)	-0.08** (0.036)	-0.07* (0.037)	-0.09* (0.052)	-0.07 (0.051)	-0.06 (0.049)
<i>Oil/Gas</i>	0.25** (0.113)	0.16** (0.081)	0.12 (0.078)	0.16** (0.059)	0.02 (0.050)	-0.02 (0.050)
<i>Heavy Industry</i>	0.21* (0.121)	0.13** (0.064)	0.10 (0.062)	0.22** (0.064)	0.07 (0.059)	0.03 (0.054)
<i>Mining/Timber</i>	0.26** (0.109)	0.18** (0.079)	0.13* (0.071)	0.15 (0.103)	0.01 (0.067)	-0.03 (0.062)
<i>Utilities/Energy</i>	-0.04 (0.098)	-0.10 (0.074)	-0.13* (0.071)	0.07 (0.086)	-0.07 (0.086)	-0.08 (0.094)
<i>Transportation</i>	0.15 (0.098)	0.07 (0.088)	0.05 (0.084)	-0.04 (0.067)	-0.17** (0.062)	-0.18** (0.060)
<i>Construction</i>	0.19** (0.090)	0.10 (0.066)	0.11* (0.062)	0.36** (0.102)	0.19** (0.078)	0.20** (0.076)
<i>Agriculture</i>	-0.05 (0.078)	-0.12** (0.055)	-0.09 (0.056)	0.09 (0.071)	-0.06 (0.054)	-0.05 (0.049)
<i>Services</i>	0.10 (0.066)	0.03 (0.045)	0.05 (0.044)	0.16** (0.060)	-0.00 (0.048)	0.01 (0.047)
<i>Light Industry</i>	0.07 (0.069)			0.14** (0.063)		
<i>Executive Branch</i>	0.03 (0.129)			0.03 (0.117)		
<i>Social Organization</i>	-0.01 (0.047)			0.07 (0.094)		
<i>Budget Sphere</i>	0.13** (0.058)			0.10* (0.051)		
<i>Military</i>	-0.05 (0.191)			0.03 (0.156)		
<i>Municipal Government</i>	0.15** (0.073)			0.02 (0.064)		
<i>Journalism</i>	-0.10 (0.101)			-0.09 (0.095)		
<i>Other/Worker</i>	-0.05 (0.076)			-0.07 (0.072)		
<i>Academia</i>	0.04 (0.121)			0.02 (0.083)		
<i>Incumbent</i>	-0.01 (0.027)	0.03 (0.032)		0.03 (0.036)	0.06 (0.041)	
<i>Moscow Based Comp.</i>	0.07 (0.079)	0.05 (0.073)	-0.03 (0.064)	0.20** (0.091)	0.20** (0.083)	0.13 (0.092)
<i>Press Freedom</i>	0.02 (0.034)	0.01 (0.040)	0.01 (0.040)	0.07* (0.039)	0.07 (0.046)	0.07* (0.045)
<i>Pct. Russian</i>	-0.00* (0.001)	-0.00 (0.001)	-0.00 (0.001)	0.00 (0.001)	-0.00 (0.001)	-0.00 (0.001)
<i>Governor Member</i>	0.21** (0.050)	0.26** (0.064)	0.27** (0.062)	0.02 (0.059)	0.03 (0.069)	0.03 (0.070)
<i>Log Revenue</i>			0.02** (0.005)			0.01* (0.008)
Time Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,214	686	707	1,282	701	717

Cell entries contain average marginal effects. Standard errors, clustered on region, in parentheses \*\* p<0.05, \* p<0.1  
 Baseline category for occupational dummies in Model 1 and Model 4 is *ProfessionalLegislator*. Baseline category for occupational  
 dummies in all other models is *Light Industry*