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POLITICAL CONNECTIONS AND INVESTMENT ACTIVITY OF RUSSIAN FIRMS: SURVEY EXPERIMENTS RESULTS

Connections between business and government bureaucrats are generally seen in the literature as a source of rents and a barrier to economic development. At the same time, practically all cases of successful catching up development realized in the 20th century involved, at their initial stages, preferences to entrepreneurs who had connections with the ruling political elite. The economic history of the United States and other developed countries shows that at a certain stage they also experienced a high level of corruption, which nevertheless did not impede economic growth. In this paper we follow the logic of the "limited access orders" framework proposed in the most recent works by North, Wallis and Weingast (2009, 2013), arguing that connections between business and state officials are inevitable at early development stages of a market economy – since without sources of rents elites in limited access orders would not be able to restrain violence and maintain political stability. The main question is about applying these rents: are they being squandered on the elite's personal consumption or used for productive purposes?

To determine how important are connections to bureaucrats for Russian entrepreneurs we used list experiment design within large-scale survey conducted in 2017 among 21,000 Russian firms. We found that 29% of entrepreneurs consider personal connections with regional and municipal bureaucrats in Russia as an important factor of their business development. Nevertheless, this factor is perceived as much less significant than the three other factors included in the list for the control group (47% for each factor on average). Firms that made fixed capital investments in 2016 consider personal connections to bureaucrats to be more important: 37% say so among them vs. 27% among non-investing firms. An additional test revealed that connections with bureaucrats are significantly less important for successful business operation in Russian regions within the top tier of the 2015 Investment Climate Rating, i.e. those with a low level of administrative costs of doing business (around 18% in this subsample vs. 29% in the overall sample).

Our empirical design is insufficient to draw conclusions about causality. In an imperfect institutional environment personal connections with bureaucrats can facilitate the operation of firms oriented on investment and development (in the logic of the "helping hand" model described by Frye and Shleifer (1997), Brown, Earle and Gehlbach (2009) and other scholars). However, this is also possible that personal connections with bureaucrats generate sources of rents which open investment opportunities for the involved firms. With novel Russian data, we show that firms with "political connections" are characterized by a higher level of investment activity and productive use of at least part of the rent generated by leveraging "political connections." Moreover, improvement of the business environment in a region significantly reduces the importance of personal contacts with bureaucrats for the firms. These empirical results comply with North, Wallis and Weingast theory envisaging several stages in development of limited access orders and their transition to "open access" only through lengthy and gradual evolution of institutions.