

## **Capitalists of All Russia, Unite! Business Mobilization Under Debilitated Dirigisme\***

**Stanislav Markus**  
Harvard University

*Political mobilization of business forces in the post-communist world has crucial implications for economic development and civil society. The emergence of strong cross-sectoral business associations during Putin's presidency challenges the prevailing view of Russia's political economy as an informal, particularistic state-business exchange. At the theoretical level, collective action by socio-economic groups is linked to severe principal-agent dilemmas common to many ex-socialist bureaucracies. Given institutionally incoherent state structures, the state as principal facilitates collective action by business actors to create a parallel, non-state platform for policy formation and implementation. Such a dynamic of "debilitated dirigisme" should be understood in the comparative contexts of business mobilization in Latin America, Asia, and the advanced industrialized world. The argument developed here stands in contrast to two conventional approaches to business mobilization, "threat theory," in which firms organize to resist various anti-capitalist forces, and "political entrepreneurship theory," which holds that business is the passive object of mobilization by the state.*

*Polity* (2007) **39**, 277–304. doi:10.1057/palgrave.polity.2300083

*Keywords* collective action; business associations; civil society;  
political entrepreneurs; state building; post-communist transition

*Stanislav Markus* is a Ph.D. candidate in Government at Harvard University. His dissertation addresses the development of property rights in the Ukraine, Russia, and China. His article on corporate governance in transition countries is forthcoming in *Socio-Economic Review*. The author can be reached by e-mail at [smarkus@fas.harvard.edu](mailto:smarkus@fas.harvard.edu).

This study examines entrepreneurial collective action in Russia under the Putin government, a context in which an institutionally fragmented state sought

---

\*The author gratefully acknowledges the comments by four anonymous reviewers for *Polity*, as well as Timothy Colton, Stephen Fortescue, Peter Hall, William Pyle, and David Woodruff.

to consolidate its control over economic policymaking. Analysis of the political mobilization of economic actors in a setting hostile to business makes two contributions. First, the theoretical framework offers a new analytical lens for studying collective action. Severe principal-agent problems typical of many transition states can motivate the state as the principal to seek non-state organizational allies as alternative vehicles to formulate and implement policy. The gap between the state's ambitions and the institutionally circumscribed capacity of its bureaucratic agents promotes the formal mobilization of business forces. Business associations (BAs) enable the state principal to exert pressure on state agents by providing alternative platforms for the formation, implementation, and monitoring of policy process. Second, on an empirical level, the study demonstrates the emergence in post-communist Russia of strong BAs and the formalization of their contact with the state, challenging the common understanding of the country's political economy as defined by informal, particularistic exchange between individual bureaucrats and atomistic firms.

### When Do the Capitalists of All Sectors Unite?

What are the systemic political conditions for *cross-sectoral* business mobilization? Olsonian approaches to collective action problems facing interest groups stress the number, discount rates, and interest heterogeneity of group members: these determine the severity of individual free-riding incentives—and hence the prospects for successful mobilization.<sup>1</sup> However, treating business as any other interest group is theoretically problematic.<sup>2</sup> To begin, the resources of a modern corporation allow it to pursue political strategies *individually*. Some scholars go even further to argue that capitalists' "structural power" to disinvest makes even individual political engagement by firms superfluous: the *implicit* threat of capital flight suffices for business preferences to be taken into account.<sup>3</sup> Finally, the cohesiveness of multi-firm associations suffers from competition in the marketplace, as opposed to the "solidarity" principle that binds labor groups.<sup>4</sup>

---

1. For example, Gary Libecap, "Conditions for Successful Collective Action," *Journal of Theoretical Politics* 6 (1994): 563–92.

2. David Hart, "Business' is Not an Interest Group: On the Study of Companies in American National Politics," *Annual Review of Political Science* 7 (2004): 47–69; David Vogel, *Kindred Strangers: The Uneasy Relationship Between Business and Politics in America* (Princeton, NJ: Princeton University Press, 1996).

3. Stewart Wood, "Business, Government, and Patterns of Labor Market Policy in Britain and the Federal Republic of Germany," in *Varieties of Capitalism*, ed. Peter Hall and David Soskice (Oxford: Oxford University Press, 2001), 247–74; Charles Lindblom, *Politics and Markets* (New York: Basic Books, 1977).

4. Philippe Schmitter and Wolfgang Streeck, *The Organization of Business Interests*, Max-Planck-Institut Discussion Paper 99/1, 1999.

Overall, effective and enduring mobilization of business should strike us as being even *more* puzzling than collective action by other socio-economic clusters.

These considerations have generated an ample literature placing business mobilization in the context of firms' ties with the state. Broadly, two sets of conditions that promote mobilization have been identified:

First, business unites under threat. Democratization is stressed as the most prominent systemic threat in the literature, largely because it facilitates the organization of potentially *anti*-business forces. This, in turn, can stimulate firms to invest in defensive collective action. One of the strongest BAs in Latin America, the Coparmex of Mexico, arose as a response to labor organization.<sup>5</sup> In France, a general strike and the election of a socialist government in 1936 triggered political reorganization of business interests.<sup>6</sup> Conversely, in Australia, BAs' feebleness has been attributed to labor disorganization.<sup>7</sup> Not only workers, but also consumers, environmentalists, and other "anti-capitalist" interests can galvanize business into self-mobilization, as the U.S. experience in the 1960s and 1970s suggests.<sup>8</sup> Democratic institutions, based on the one person-one vote principle, can also threaten the interests of capital owners by shifting the incentives of state actors toward populist redistribution.<sup>9</sup> The redistribution-oriented democratic nature of U.S. politics, for example, creates stronger pressures for multi-firm alliances as compared with the technical, less democratic policy processes at the European Union (EU) level.<sup>10</sup>

Second, business mobilization can be the result of external political entrepreneurship (PE); rather than organizing itself, business can be the object of state actors' strategies. Comparative literature suggests two fundamental logics behind political entrepreneurs' (PEs') mobilization of economic interests. One logic indicates that *organized business can help PEs in various power contests*. Such contests range from electoral competition or the struggles between the executive and the legislature in a democracy to the ruler's defense against external challengers in an authoritarian regime. In the U.S. case, for example, attention has been drawn to office-seekers who "engage in a discursive exercise to remold business interests and . . . undertake the mobilization of business"

---

5. Ben Ross Schneider, "Why is Mexican Business so Organized?" *Latin American Research Review* 37 (2002): 77-118.

6. Cornelia Woll, *The Difficult Organization of Business Interests: MEDEF and the Political Representation of French Firms*, Max-Planck-Institut Discussion Paper 05/12, 2005.

7. Stephen Bell, "Between the Market and the State: The Role of Australian Business Associations in Public Policy," *Comparative Politics* 28 (1995): 25-53.

8. Jack Walker, "The Origins and Maintenance of Interest Groups in America," *American Political Science Review* 77 (1983): 390-406.

9. For Vogel, "the relatively democratic nature of the American state" permeates business with popular control paranoia. Vogel, "*Kindred Strangers*," 46.

10. David Coen, "The impact of US lobbying practice on the European business-government relationship," *California Management Review* 41 (1999): 27-44.

to support a political campaign.<sup>11</sup> In Mexico of the 1960s, the left-leaning President Mateos promoted the organization of business interests as it allowed him to outsource politically inconvenient tasks (e.g., the attraction of foreign investment) and keep his pro-socialist electorate.<sup>12</sup> The role of mobilized business in neutralizing parliamentary or party-based opposition on behalf of activist presidents is well documented by Martin.<sup>13</sup> Business has participated in international power contests too, for example, in the case of the EU Commission seeking to legitimize itself *vis-à-vis* national governments by organizing capital on its side.<sup>14</sup> Pinochet's Chile, where the dictator's efforts at business mobilization aimed "to divide the political opposition to his rule," illustrates the power-contest dynamic in a non-democratic setting.<sup>15</sup>

Another logic behind PEs' organization of business concerns policymakers' ability to make policy. On the one hand, *politically organized business can relieve the system from being overloaded with particularistic demands by firms*. West European corporatism of the 1970s illustrates this PE motivation.<sup>16</sup> On the other hand, *BAs can supply information about the economy required for effective policymaking*. For Schmitter, the state as the "authoritative guarantor of capitalism" values "professional expertise, specialized information, [and the] prior aggregation of opinion," which only associational forms of interest intermediation can provide.<sup>17</sup> Adequate information furnished by business to state technocrats has been viewed as the *sine qua non* of successful policymaking in Korea, Chile, Taiwan, the U.S., today's EU, and other countries.<sup>18</sup> With the example of social policy in Denmark, Martin shows that the traditionally corporatist West European states continue to encourage business mobilization to

11. Andrew J. Polsky, "When Business Speaks: Political Entrepreneurship, Discourse, and Mobilization in American Partisan Regimes," *Journal of Theoretical Politics* 12 (October 2000): 457.

12. Schneider, "Why is Mexican Business so Organized?" 91.

13. Cathie Martin, "Business and the New Economic Activism: The Growth of Corporate Lobbies in the Sixties," *Polity* 27 (Fall 1994): 51; Cathie Martin, "Corporate Taxation in Pursuit of Growth," *American Politics Quarterly* 19 (October 1991): 469–84.

14. David Coen, "The Evolution of the Large Firm as a Political Actor in the European Union," *Journal of European Public Policy* 4 (March 1997): 91–108.

15. Ben Ross Schneider, "Elusive Synergy: Business–Government Relations and Development," *Comparative Politics* 31 (1998): 111.

16. Claus Offe, "The Attribution of Public Status to Interest Groups: Observations on the West German Case," in *Organizing Interests in Western Europe*, ed. Suzanne Berger (Cambridge: Cambridge University Press, 1981), 135–37.

17. Philippe Schmitter, "Still the Century of Corporatism?" in *Trends Towards Corporatist Intermediation*, ed. Philippe Schmitter and Gerhard Lehmbruch (London: Sage Publications, 1979), 27.

18. Pieter Bouwen, "Exchanging Access Goods for Access: A Comparative Study of Business Lobbying in the European Union Institutions," *European Journal of Political Research* 43 (2004): 337–68; Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press, 1995); Alice Amsden, *The Rise of "the Rest": Challenges to the West from Late Industrializing Economies* (Oxford: Oxford University Press, 2001); Martin, "Corporate Taxation."

take advantage of firms' policymaking capacities.<sup>19</sup> Schneider, in his comparative overview, finds that the strongest, most encompassing BAs emerge during severe economic crises, when governments seek the policy assistance of mobilized business.<sup>20</sup>

As PE scholarship recognizes, the success of *étatiste* business mobilization depends on whether business actors respond favorably to such strategy. The literature depicts the incentives offered to the firms by PEs as decisive. In Mexico and France, for example, the imposition of compulsory membership for firms in particular BAs via legislation helped these associations boost their ranks.<sup>21</sup> Specific BAs have also been selected by PEs in Mexico as participants in tripartite negotiations. Informal access to policymaking has been a common incentive in the U.S. and the EU, while the appointment of business leaders to government posts has been practiced widely throughout South America.<sup>22</sup>

While confirming the importance of the PE approach for Russia, this article argues that PE scholarship neglects salient features of many post-communist polities. Crucially, PE literature assumes regularized power coordination within states. State actors have adequate incentives to make or enforce policy, due to the accountability structures or norms—hence the technocrats' need for the insulation from the “noise” of pluralist lobbying, or, if need be, Leviathan's open ear to business counsel on matters of economy. However, after the collapse of the Communist Party, many post-socialist states have struggled to resolve the more basic principal-agent dilemmas within the state apparatus. The often dramatic lack of *intra-state sovereignty* is analytically distinct from “power contests” stressed by PE theories—contests between the executive and an external challenger in functioning states. In addition, PE literature neglects the stage of economic development as an intervening variable conditioning the response of business to PE strategies. The attempt to rapidly create market institutions from scratch is unique not only compared to the Western nations, but also to Latin America or East Asia. Overnight institutions give business actors a “one-off” chance to participate in shaping the fundamental “rules of the game.” Furthermore, from the individual firm's perspective, the benefits of collective action are much greater than in developed markets, where institutions are adjusted at the margin and the costs of collective action often loom prohibitive relative to the not-so-significant benefits.

---

19. Cathie Martin, “Corporatism from the Firm Perspective: Employers and Social Policy in Denmark and Britain,” *British Journal of Political Science* 35 (2004): 146.

20. Ben Ross Schneider, *Business Politics and the State in Twentieth-Century Latin America* (New York: Cambridge University Press, 2004).

21. Schneider, “Why is Mexican Business So Organized?” 82; Woll, “*The Difficult Organization*,” 8.

22. Martin, “Business and the New Economic Activism,” 60–68; Schneider, “Why is Mexican Business so Organized?” 80; Coen, “The Evolution of the Large Firm.”

Two interdependent causal vectors, I argue, have affected the mobilization of economic forces in Russia: first, economic activism recently assumed by the state executive and, second, the institutional debility of the state apparatus that in turn has allowed effective bureaucratic resistance to top-down reforms. The shift from monetarism to market dirigisme in Putin's government drove the demand of presidential state agents for cooperation with institutionalized business, since the latter allowed the state principal increase pressure on state agents.

### **The Post-Soviet Fiasco of Collective Action**

Russia's politico-economic landscape was transformed dramatically in the 1990s. In less than five years, one of the largest property transfers in history coincided with the tumultuous unfolding of Russia's proto-democracy. Russian capitalists took advantage of their new freedom of association, engaging in entrepreneurial collective action that included electoral intervention and interest group formation. Throughout most of the 1990s, however, Russian business failed in its pursuit of both strategies.

There was no lack of enthusiasm for party building among business forces in the parliamentary electoral campaigns of 1993 and 1995. The parties (including Renewal, Civic Union, Entrepreneurs for a New Russia) presented themselves in the broadest terms, yet were rejected by voters as industrialist vehicles; many political business blocks did not gather enough signatures to even participate in elections. Reasons for the electoral debacle included entrepreneurs' lack of political experience and the absorption of business formations by established parties. Entrepreneurs' electoral fiascos in 1993 and 1995 put an end to party-building experiments.<sup>23</sup>

Development of formal BAs in the 1990s failed, too. Initially, BA creation was marked by a pronounced dualism between state-firm directors and the "new" entrepreneurs: although both relied on individualistic and informal relations with the government, the two groups were creating separate representation systems.<sup>24</sup> The years 1992–1994 saw the peak of interest-group creation by business: two-thirds of the BAs formed between 1988 and 1997 emerged during this period.<sup>25</sup> Between 1993 and 1995, that is, with the progress of mass privatization, the divisions in associational membership shifted from property type (state versus private) to sectoral affiliation. This trend was reinforced by the dissolution of the Soviet-era sectoral ministries, which gave birth to sectoral BAs that absorbed

---

23. Sergey Peregudov *et al.*, *Gruppy Interesov i Rossiyskoe Gosudarstvo* (Moscow: Editorial URSS, 1999).

24. Aleksey Zudin, *Sistema Predstavitel'stva Rossiyskogo Biznesa: Formy Kollektivnogo Deystviya* (Moscow: Tsentr Politicheskikh Tekhnologii, 1997), 10–13.

25. Zudin, *Sistema Predstavitel'stva*, 17.

ministerial cadres, along with their policy orientation and bureaucratic inertia, yet without decisive lobbyist advantages or cohesive membership. While the inter-firm linkages in state-owned industry crumbled due to the abolition of branch ministries, the organizational consolidation of *private* entrepreneurs was obstructed by the state's general imperviousness to independent formal interest groups. Some BAs in new sectors, for example, the Association of Russian Banks, developed into effective organizations; however, they faced the problem of leadership as associational competition for the representation of new sectors led to intra-sectoral strife, manifested by the creation of redundant BA structures in the same sector. The absence of threat from organized labor reduced the urgency of employer unification in all sectors. Overall, like other segments of Russia's civil society, BAs failed to develop sustainable organizations in the 1990s.

## Business Mobilization During Putin's Presidency

The literature on the post-communist state-business dialogue can be grouped roughly into "civil society" and "state capture" categories. The former examines the relative success of grass-roots interest intermediation in the ex-totalitarian states; the latter cautions against the dangers of state subordination to narrow private interests. Both literatures have portrayed state-business ties in Russia as oligarchic, personalistic, and quasi-criminal in nature.<sup>26</sup> By contrast, research conducted by the author suggests that Russia's business world—once an amalgam of warring and colluding, failing and powerful, but in all cases organizationally disunited firms—underwent an institutional transformation during Putin's tenure.

The outcome to be explained is *business institutionalization*, defined as interest aggregation within the entrepreneurial community and the relational formalization of the state-business boundary. (It would be misleading to quantify interest aggregation via the number of registered BAs or BA members, as some studies do, since such measures include façade organizations created to launch individual careers in politics or to siphon off foreign funding.) I focus on three *cross-sectoral* and *federal* associations that have achieved solid membership bases as well as organizational ties with state structures after Putin's assumption of power. (The conclusions may not apply to intra-sectoral dynamics.) The associations were chosen consciously as representative of larger trends.<sup>27</sup>

---

26. Andrew Barnes, "Russia's New Business Groups and State Power," *Post-Soviet Affairs* 19 (2003): 154–86; Joel Hellman, "Russia's Transition to a Market Economy: A Permanent Redistribution?" in *Russia after the Fall*, ed. Andrew Kuchins (Washington, DC: Carnegie Endowment, 2002); Peter Rutland, ed., *Business and State in Contemporary Russia* (Boulder, CO: Westview Press, 2001).

27. Importantly, selected associations do not constitute "selection on the dependent variable," since the dependent variable here is defined *systemically*: it can vary temporally but not across space at any

Selected BAs differ in terms of institutional history, policy orientation, and member firms' size and ownership: these differences are uncorrelated with the outcome (high degree of institutionalization), reducing the possibility of an omitted variable bias.

*Russian Union of Industrialists and Entrepreneurs* (RUIE): Undoubtedly the most prominent association, the RUIE includes some 328,000 individuals representing companies and other associations in all of Russia's 89 federal regions. The firms in RUIE account for 60 per cent of the GDP.<sup>28</sup> The union's roots go back to 1990, when the Scientific-Industrial Union was formed, a stronghold for "liberal communists" in the enterprise directors' corps, with Gorbachev's market reforms as a guiding vision. The RUIE, formed in December 1991, rode the wave of industrialist influence during the early 1990s, only to wane in significance toward the end of the decade. In 2000, RUIE's leadership was enriched by the so-called oligarchs: the tycoons' membership converted the RUIE into an uneasy but powerful alliance between reformist corporate capital and traditional industrialists. After 2000, RUIE has engaged in sustained top-level policy work, achieving immense prestige in the economic policy community. RUIE's congress meetings are attended by the President, the Prime Minister, and key cabinet members, while membership in RUIE's "Management Bureau" [*byuro pravleniya*] carries a \$100,000 annual price tag for its 27 individual affiliates.<sup>29</sup>

Juxtaposed against RUIE's organizational doldrums in the 1990s, its recent meteoric rise is hard to ignore. RUIE's most ambitious project of the last decade, the launch of an industrial political party in 1994, never took off. At the end of the 1990s, hundreds of workers were still bused to RUIE's congress meetings to create a Potemkin village-like semblance of importance. By 2001, however, the press was referring to the Union as a "shadow cabinet" or, less flatteringly, the "oligarchs' trade union." One media analysis, tellingly titled "*Who is the master of the house*" concluded at the time, "Having emerged from the ruins of the 'red director' corpus, RUIE may not be prepared to seize the power as some analogous organization of army generals would do, but it is ready to explain to the authorities what must be done. . . . It seems that the government will have to listen."<sup>30</sup> By 2003, RUIE boasted a \$80 million budget (comparable to an "average"

---

given time. It is the diachronic change in the overall business institutionalization, from the 1990s until today, which is examined. Conversely, an alternative research design aiming to explain why some associations succeeded in mobilizing business while others failed to do so would, indeed, have to include the cases of failure. (Notably, however, such "negative cases" would not include any BAs chosen for partnership by the Presidential Administration, and so would not negate the argument advanced here.)

28. RUIE's website, <http://www.rspp.ru/>.

29. *Vedomosti*, January 01, 2003.

30. *Sovershenno Sekretno*, September 2001.

Russian ministry), two-thirds of which was spent on policy projects.<sup>31</sup> While in the 1990s BAs depended on under-funded public institutions for conducting modest economic analysis, the RUIE now relies on its own well-staffed Expert Institute; in advance of the 2004 presidential election, over one hundred professional experts were working on an economic program to be advocated by RUIE.<sup>32</sup> The two new formal mechanisms linking the state with RUIE are President Putin's institutionalized meetings with the RUIE leadership and the latter's access to policymaking.<sup>33</sup> The biannual meetings of RUIE's Management Bureau with Putin, during which legislative proposals prepared by RUIE's 15 policy groups (on taxation, land law, WTO access, etc.) are discussed, became a routine by 2003 and have continued into Putin's second term. Furthermore, upon Putin's instruction, RUIE's Management Bureau members were mandatorily included in "consultative commissions and organs at the presidency and the government of the Russian Federation."<sup>34</sup>

The best indication of RUIE's new status is the list of policies the Union has shaped. The 2002 laws on pensions were based on RUIE proposals (see below). The Union pushed through the 2002 law On Employers Unions.<sup>35</sup> The 460-article Code on Customs, laboriously adopted in 2003, resulted from the joint work of the State Customs Committee, RUIE, and the federal government: RUIE successfully insisted on the implementation of international best practice in customs procedures and curtailed the ability of the State Customs Committee to amend the law in the future.<sup>36</sup> In 2006, RUIE and the Federal Antimonopoly Service submitted a proposal to the Duma that was adopted as the law On Protection of Competition: RUIE succeeded in increasing the threshold market share that triggers a scrutiny by state regulators from 5 to 8 percent, as well as in transferring the right to impose sanctions from the Federal Antimonopoly Service to the courts.<sup>37</sup> Perhaps most remarkably, formally organized business with RUIE at the helm has made the widely acknowledged progress in tax reform possible. (In contrast, some scholars interpret this success as the result of an informal elite bargain between the state and select oil firms.<sup>38</sup>) Through formal intermediation via the Council on Entrepreneurship, a key agreement was reached in 2001 on the

---

31. Sergey Peregudov, *Korporatsii, Obshchestvo, Gosudarstvo: Evolyutsiya Otnosheniy* (Moscow: Nauka, 2003), 97.

32. Jurgens's interview with *Business Week Online*, March 1, 2004.

33. Author's interview with Jurgens, RUIE executive. All interviews cited in this article took place between June and August 2003.

34. *Vedomosti*, June 27, 2001.

35. Author's interview with Isakov, head of legislation department at CCI.

36. Customs Computer Service ([www.tks.ru](http://www.tks.ru)), June 3, 2003.

37. *Gazeta.ru*, July 5, 2006.

38. Pauline Jones Luong and Erika Weinthal, "Contra Coercion: Russian Tax Reform, Exogenous Shocks and Negotiated Institutional Change," *American Political Science Review* 98 (2004): 139–52.

taxation of oil sales.<sup>39</sup> Under RUIE pressure, Minister of Finance Alexei Kudrin agreed in 2003 to the stepwise lowering of the value-added tax from 20 to 15 percent within three years.<sup>40</sup> Far-reaching amendments to the Tax Code constraining the discretion of tax police were pushed through by RUIE in 2006.<sup>41</sup> The full scope of RUIE's policy impact includes numerous other issues, such as land leasing, standardization of accounting practices, repatriation of offshore capital, bankruptcy legislation, industrial policy, foreign exchange regulation, reform of natural monopolies, WTO access, enterprises' debt restructuring, banking reform, administrative reform, court reform, and others.<sup>42</sup>

*Union of Business Associations of Russia* (OPORA): Exclusively aimed at small and medium enterprises (SMEs), OPORA, with its 64 regional centers, is the rising star on the lobbyist horizon. Founded by 50 associations uniting 850,000 firms in September 2001, the organization opened its doors to individual firms in 2003.<sup>43</sup> Combating the administrative harassment of entrepreneurs constitutes OPORA's prime mission, along with improvement of the banking infrastructure. The association also provides expert consultation (on taxation, licensing, etc.) to member firms, participates in drafting legislative proposals, and runs international programs in conjunction with several government ministries.<sup>44</sup> OPORA has established itself as the prime interface for the exchange between governmental structures and the SMEs. OPORA's nine sectoral working groups (services, retail, agriculture, etc.) have institutionalized their communication channels with the Ministry of Economic Development and Trade, the Ministry of Finance, and the Committee on Customs.<sup>45</sup>

After meeting with Putin in 2001, OPORA submitted to the Presidential Administration a document listing the state offices involved in extortion masked as legal inspections.<sup>46</sup> Between May and December 2003 alone, OPORA addressed more than 500 complaints from individual firms, mostly about the violation of entrepreneurs' rights by state organs. OPORA submits regularly the analysis of such cases to the Presidential Administration, the Highest Arbitrage Court, the Ministry of Economic Development and Trade, and the General Procuracy.<sup>47</sup> More spectacularly, in 2005, OPORA scored several victories against

39. Peregudov, *Korporatsii*.

40. Prime-Tass News Wire, January 29, 2003.

41. As the Union president notes, "RUIE, as the initiator of all these amendments, first of all achieved the consolidation of the business community's position on these issues, and, second, actively articulated this position in all possible public arenas." Shokhin's interview with Gazeta.ru, July 18, 2006.

42. Author's interview with RUIE executive.

43. *Novye Delovye Vesti*, January 12, 2002.

44. Author's interview with Borisov, OPORA's president.

45. *Novye Delovye Vesti*, January 12, 2002.

46. *Nezavisimaya Gazeta*, December 5, 2001.

47. Official website of The Civil Society Institutions and Human Rights Council under the President of the Russian Federation, <http://www.sovetpamfilova.ru/help/partners/2048/?parent>.

the powerful (and much-loathed) regulatory agencies. The Minister of Internal Affairs, Nurgaliev, signed the order On Regularization [*uporiadochenie*] of Police Inspections of Entrepreneurs while the Procurator General, Ustinov, signed the order On Supervision of Implementation of Laws on Protection of Entrepreneurs' Rights. In effect, both documents streamlined the internal control over low-level police administrators responsible for business predation while ratcheting up punishments for misconduct.<sup>48</sup>

*Chamber of Commerce and Industry* (CCI): Larger in scope than RUIE, CCI boasts 155 regional and municipal centers and 14 foreign offices, representing 20,000 companies and associations.<sup>49</sup> While all business categories are represented, small business accounts for 70 percent of membership and has a strong voice in the organization.<sup>50</sup> The only significant pre-perestroika association, the CCI kept an apolitical profile throughout the 1990s, fulfilling state functions connected with economic representation abroad. The Chamber assumed a much greater lobbying role after Yeltsin's departure, epitomized by Primakov's leadership since December 2001. (Primakov's political resume includes the positions of Minister of Foreign Affairs and Prime Minister.) Since 1999, the Chamber has successfully coordinated a countrywide network of 140 peer courts, which allow businesses to resolve inter-corporate disputes without resorting to state organs.<sup>51</sup> Most indicative of CCI's new role was its success in lobbying for a simplification of the Tax Code chapter for SMEs.<sup>52</sup> Together with OPORA, CCI has effectively promoted legislation reducing state discretion in registering, certifying, and inspecting small enterprises.<sup>53</sup>

The evidence thus indicates successful interest aggregation within formal BAs as well as the ongoing formalization of the state-business dialog in which BAs (as compared with individuals or single firms) come to play an increasingly important role. As the chief editor of *Ekspert*, Russia's premier business magazine, noted, "The first step towards the creation of strong entrepreneurial organizations . . . has been made during the last three years. [In the 1990s,] these were social clubs rather than 'associations,' . . . but today they are real, important public organizations. . . . This is a universal phenomenon."<sup>54</sup> OPORA's president spoke of "a new cultural attitude of government towards business. . . . [Ex-Prime Minister] Kasyanov, [Moscow Mayor] Luzhkov now consults with business associations."

48. *Kommersant*, August 19, 2005.

49. CCI, *Torgovo-Promyshlennaya Palata Rossiyskoy Federatsii* (Moscow: TPPRF 2003), 4.

50. Author's interview with the executive of *Razvitie*, a small business association.

51. Author's interview with the legislation department chair at CCI.

52. Author's interview with the legislation department chair at CCI.

53. CCI and CIPE, *Deyatel'nost' Torgovo-Promyshlennykh Palat i Ob'edineniy Predprinimateley v Rossii po Zashchite Interesov Delovogo Soobshchestva* (Moscow: TPPRF 2002), 51–55.

54. Author's interview with *Ekspert's* chief editor, Moscow.

As compared to the 1990s, he added, “business is better organized—and taken into account.”<sup>55</sup>

Russia’s business mobilization appears impressive not only relative to the 1990s, but also in comparative perspective. It may dwarf the level of business organization in Mexico, which is considered the *highest* in Latin America.<sup>56</sup> The Consejo Mexicano de Hombres de Negocios, roughly comparable to Russia’s RUIE given the cross-sectoral focus on big business, has been hailed as the “single most important organization of the private sector.”<sup>57</sup> Yet the Consejo’s “core activity,” monthly luncheons with non-senior government officials that only occasionally include cabinet members, is but a pale shadow of RUIE’s formalized, multi-dimensional, well-funded, top-level policy involvement.<sup>58</sup> The EU level of business organization likewise appears weaker than that found in Russia: the “strategic alliances” created by firms to assist the EU Commission with policymaking have been largely informal, policy-specific, unstable, and limited to large corporations.<sup>59</sup>

### Theories of Threats and Political Entrepreneurs: Preliminary Considerations

How would scholarly conventional wisdom interpret Russia’s business institutionalization? The threat theory might argue that the post-Soviet democratization drove firms’ political self-organization. Democratization, however, is a fluctuating process that, in the Russian case, misses the actual timing of business mobilization. Structured business intermediation developed precisely when democratic freedoms were curtailed with Putin’s rise and when the defeat of labor groups (weak to begin with) was institutionalized with the adoption of a pro-market Labor Code in 2001.

While the threat theory can arguably be ruled out,<sup>60</sup> PE scholarship offers much to illuminate the case. In particular, as will be shown, the government has sought BAs’ expertise to improve economic policy. However, comparative literature suggests that from a government’s viewpoint, there are many ways of

55. Author’s interview with OPORA’s president.

56. Schneider, “Why is Mexican Business so Organized?”

57. Roderic Camp, *Entrepreneurs and Politics in Twentieth-Century Mexico* (New York: Oxford University Press, 1989), 83.

58. Notably, such informal luncheons are considered “the strongest positive incentive . . . for collective action” by Mexican big business. Schneider, “Why is Mexican Business so Organized?” 90–93.

59. Coen, “The Evolution of the Large Firm.”

60. *Even if* political threats had played a role, as Schneider persuasively argues, “comparative analysis suggests that threats alone are insufficient to sustain collective action. The histories of associations . . . are littered with acronyms created by capitalists who organized to oppose particular [threats] . . . , but demobilized shortly after the immediate threat subsided.” Schneider, “Why is Mexican Business so Organized?” 82.

securing such information. In the EU, for example, “the [EU] Commission actively encouraged quasi-formal industrial forums,” such as the Ravenstein group, that have been relatively small, policy-specific, and transient.<sup>61</sup> Consultations with select “national champions” have been typical in East Asia. In Russia itself, during the periods of neoliberal weakness in the 1990s, the government sporadically used the financial-industrial groups as sources of economic policy assistance.<sup>62</sup> If information about the economic *status quo* were the main target of the Presidential Administration, it is not clear why Putin’s team chose to support a cross-sectoral, nation-level, formal aggregation of business interests when a number of other (seemingly more feasible *ex ante*) options existed.

Another strand of PE theorizing would hold that the overload of Russia’s fledgling democracy in the 1990s with particularistic demands prompted the state to “organize”—so as to dominate—business interests. This view seems plausible given Putin’s conformity-enforcing management of other social and political interests.<sup>63</sup> Accordingly, RUIE’s strengthening has been interpreted as part of the state’s agenda to control the notorious oligarchs.<sup>64</sup> Yet the “domination” perspective falters once the phenomenon of entrepreneurial collective action is acknowledged as one extending *beyond* the RUIE. Thousands of small enterprises, perennial victims of Russian bureaucracy and fervent supporters of the Kremlin’s economic reforms, have simply never been a challenge to Putin’s administration. It is rather puzzling why BAs, organizationally effete and functionally marginal throughout the 1990s, presented a target for the state’s takeover. Even if limited to the RUIE, the domination thesis begs questions. Putin may have brought magnates’ blatant politicking under control, *yet formal BAs have played no role in the process*. The administration has successfully targeted specific corporations and persons without any recourse to the RUIE. If the latter were intended as a domination instrument, it has proven redundant. According to several interviewees, Putin was actually *averse* to RUIE as the new institutional home of the “oligarchs”; before joining, top magnates also considered establishing an entirely new organization, yet there was “no critical mass” of members.<sup>65</sup>

Building on PE literature, I argue that the Russian executive lacks both internal cohesion and a bureaucratic elite, problems of which the administration has been well aware, given the ambitious growth targets set by Putin. The key goal behind Kremlin PE has been *to put pressure on the bureaucratic machine*.

---

61. Coen, “The Evolution of the Large Firm,” 96.

62. Peregudov *et al.*, *Gruppy Interesov*, 279–88.

63. Harvey Balzer, “Managed Pluralism: Vladimir Putin’s Emerging Regime,” *Post Soviet Affairs* 19 (July 2003): 189–227.

64. Andrew Barnes, *Owning Russia: The Struggle over Factories, Farms, and Power* (Ithaca, NY: Cornell University Press, 2006), 175–77.

65. Author’s interviews with the executives of RUIE and Business Russia.

This pressure is exerted via institutionalizing BAs' access to economic policy-making. In the "information" version of PE literature, BAs *supplement* the otherwise capable bureaucratic elites; conversely, I cast BAs as partially *supplanting* the ineffective and insubordinate agencies on behalf of the state principal. Notably, this argument diverges from the "power contest" element in PE theorizing. The latter assumes *external* challengers to the executive branch (e.g., the parliament or an opposition party or a rival office-seeker) as catalysts for PEs' mobilization of business. To the contrary, this article presents *intra*-executive struggles, typical of transition states, as the relevant factor.

### **Business Institutionalization Under Debilitated Dirigisme: Toward a Theory**

The post-communist state, as an arena for collective action, is conceptualized here as *a set of organizations* with a monopoly on the legitimate use of violence. The explicit focus on the meso-institutional level avoids the reduction of the state "to an aggregation of the interests of individual office holders, the vector sum of political forces, or the condensed expression of some logic of economic necessity."<sup>66</sup> Studies conducted throughout the 1990s on the centrifugal forces in Russian federalism, the power of the oligarchs, or the fragmentation of national markets imply that the Russian state did not, by the end of the decade, reach the historical threshold "when politics ceases to be a struggle over the distribution of sovereign powers . . . and becomes a struggle over the distribution of the national product."<sup>67</sup> Putin-endorsed centralization *vis-à-vis* regions, parliamentarians, and oligarchs has ostensibly eliminated the need to problematize the sovereignty deficit of the Russian state; if anything, scholars and journalists alike lament the *abundance* of state power in Russia. By contrast, the account here maintains that the Russian state has not reclaimed the ability to make and implement policies in a coherent manner. The potential gravity of insufficient power coordination mechanisms to assure the very existence of the state is well illustrated by Solnick's seminal study of the Soviet collapse, raising questions about lingering path-dependent processes.<sup>68</sup> In its focus on the meso-institutional level, my account also rejects sweeping conceptualizations of an activist state as either "developmental" or "predatory." The organizational intra-state complexity allows for the co-existence of developmental and predatory bureaus, and changes in the outlook of any particular department over time. In the Russian case especially, it must be acknowledged that *both* economic development and power

---

66. Peter Evans, *Embedded Autonomy*, 18.

67. Reinhard Bendix, *Nation Building and Citizenship: Studies of Our Changing Social Order* (Berkeley: University of California Press, 1977), 129.

68. Steven Solnick, *Stealing the State* (Cambridge: Harvard University Press, 1998).

accumulation have driven the state's aggregate agenda during Putin's presidency. However, while the well-noted centralization agenda has been projected at individual firms (e.g., in forcing the latter to contribute to social welfare), I argue that the promotion of BAs has been driven by developmental ambitions—and the obstacles to their realization.

Hall's "policy paradigm" framework is employed here to describe the politicization of economic policymaking in Russia, a process that has drawn in business actors, spurring their organization. A policy paradigm captures the holistic set of beliefs and rationales behind a particular policy program.<sup>69</sup> Analyzing the shift from Keynesianism to monetarism in British economic policy, Hall cogently argued that policy paradigm shifts trigger a competition for policymaking privileges that extends to previously non-involved socio-political units.

Russia's economic policy underwent a fundamental change upon Putin's assumption of power. In the 1990s, the Russian state went through a series of deep fiscal crises culminating in the 1998 default. At the same time, "monetary policy—decisions by national authorities on how much money the state should issue—had become the touchstone of politics."<sup>70</sup> Given fiscal bottlenecks, the "monetarist orientation of economic policy, retained more or less throughout . . . Yeltsin's administration, made the regime extremely dependent on individuals commanding financial resources."<sup>71</sup> However, the tripling of oil prices and the forceful tax-collection campaigns have led the government to relative financial independence. The financial breathing space accorded to the state supported the ideational shift in the post-Yeltsin presidential team. Throughout the 1990s, the Russian state had neither the political will nor the institutional tools to engage in the governance of the private economy. Yet, after Putin's election in 2000, the administration grew dissatisfied with the Washington Consensus policies that prioritize stabilization and liberalization over administrative reform and long-term economic strategy. Instead, Putin's team became more receptive to the ideas of soft dirigisme, that is, the state-administered creation of market infrastructure.<sup>72</sup>

Hall predicts that policy paradigm change involves "significant shifts in the locus of authority over policy" accompanied by a "contest [that] may well spill beyond the boundaries of the state itself. . . . It will end only when the supporters of a new paradigm secure positions of authority over policymaking and are able

---

69. Peter Hall, "Policy Paradigms, Social Learning and the Case of Economic Policy Making in Britain," *Comparative Politics* 25 (April 1993): 275–96.

70. David Woodruff, *Money Unmade: Barter and the Fate of Russian Capitalism* (Ithaca, NY: Cornell University Press, 1999), 81.

71. Peregudov *et al.*, *Gruppy Interesov*, 221.

72. Andrei Nesterenko, "The Modernization Challenge Facing President Putin," *Finance and Development* 37 (September 2000). Available: <http://www.imf.org/external/pubs/ft/fandd/2000/09/nesteren.htm>.

to rearrange the organization . . . of the policy process so as to institutionalize the new paradigm.”<sup>73</sup> However, while in the British case examined by Hall the non-state actors joined the policymaking debates to challenge the incumbent during an electoral struggle, in Russia the executive power-holder is challenged from *within* the existing state structures: it is the incumbent *himself* who invites the non-state actors to partake in policymaking. Why should this be the case?

Historically, Russia’s bureaucracy has been the key stumbling block on the road to executively stipulated reforms:

The Russian state machinery is so complicated that it is turning into an autonomous system. . . . The paradox is that *Russia is attempting to solve the problems characteristic of a contemporary postindustrial society while relying on a bureaucratic machine of the preindustrial age*, a machine which is irrational and not subject to genuine control. . . , the kind of machine . . . with which the two great reformers—Peter the Great and Vladimir Lenin—were forced to put up.<sup>74</sup>

Furthermore, in post-Soviet Russia, “bureaucratic . . . unaccountability got worse as a result of the approach to administrative control that Yeltsin employed . . . , [which was] individualized, antiprocedural, [and] anti-institutional.”<sup>75</sup> The state’s pathologies bode ill for the “Putinist” policy paradigm, which stalled at the level of nominally subordinate agencies. Putin related this concern to the 2003 RUIE Congress in a surprisingly unequivocal manner:

Active work is now in progress on *optimizing the structure and functions of the still rather unproductive bureaucratic apparatus*. . . . We realize what resistance these reforms arouse in officials who have become used to giving their powers a broad interpretation and who only know how to authorize, distribute, restrict and decide for others. . . . *Any excessive bureaucratic powers must be viewed as abuse*.<sup>76</sup>

As the next section argues, the adoption of an activist policy paradigm by the political principal in the face of bureaucratic resistance has prompted the principal to facilitate business institutionalization so as to put pressure on state agents.

---

73. Hall, *Policy Paradigms*, 280–81, emphasis added.

74. Vladimir Pastukhov, “Law under Administrative Pressure in Post-Soviet Russia,” *East European Constitutional Review* 11 (2002): 66–74, emphasis added.

75. George Breslauer “Personalism Versus Proceduralism: Boris Yeltsin and the Institutional Fragility of the Russian System,” in *Russia in the New Century: Stability or Disorder?*, ed. Victoria Bonnell and George Breslauer (Boulder, CO: Westview, 2001), 49.

76. XIII RUIE Congress Address, November 14, 2003, emphasis added.

A separate theoretical issue concerns firms' *response* to state principal's strategy. PE theories view business interests as fundamentally malleable rather than structurally determined.<sup>77</sup> Hence, by virtue of offering the right incentives to business, the state "absorbs" the inter-firm transaction costs, and firms duly mobilize.<sup>78</sup> However, several factors exacerbate such transaction costs in the post-communist states. The lack of a civil society tradition, the pervasive uncertainty of transition, or, in Russia's case, a large resource sector negate the trust-building logic of repeated games or create additional cleavages (e.g., between the oil industry and the value-added sectors for Russia). For the post-communist economies, a full theory of business institutionalization must go beyond state incentives. This article advances a preliminary hypothesis as to why Russian business swallowed the PEs' bait with such gusto. In markets under construction, policymaking often amounts to the design from scratch of the very basic rules for finance, taxation, regulation, etc. Arguably, business actors derive substantially greater benefits from impacting such deep-level institutions than from adjusting them at the margin, as is the case in stable, mature markets. Of course, powerful corporations can often impact such rules individually. Only when particularistic lobbying becomes problematic do the benefits of *political* action, from the viewpoint of firms in emerging markets, become the benefits of *collective* action. Overall, while political activism by firms in developed markets is a luxury of sorts, affordable for large corporations only and prone to fall during periods of recession,<sup>79</sup> the incentives for political engagement may be more widespread and intense for firms in emerging economies.

The next section will put empirical fabric on this theoretical framework. At this point, let us ask what are some germane comparisons for Russia's business institutionalization? At the general level of "political entrepreneurship," both Western Europe and the U.S. ostensibly exhibit parallels. Writing on Europe's corporatism of the 1970s, Offe noted that "interest representation . . . tends to become predominantly a matter of 'political design,' and thus in part a dependent rather than independent variable of policy making."<sup>80</sup> Under closer investigation, however, Western corporatism involved uncoordinated yet well-organized interests overloading the political system. This prompted state actors to structure the societal demands, so as "to relieve the state bureaucracy from the veto power of shortsighted interest groups." In Russia, by contrast, top-level policymakers empowered organizationally *weak* business groups, so as *to decrease state*

---

77. For an excellent review of both perspectives, see Ben Schneider, "Organizing Interests and Coalitions in the Politics of Market Reform in Latin America," *World Politics* 56 (April 2004): 456–79.

78. For example, Walker, "The Origins and Maintenance of Interest Groups"; Martin, "Business and the New Economic Activism."

79. Coen, "The Evolution of the Large Firm," 103.

80. Offe, "The Attribution of Public Status," 125–35.

*principal's reliance on—and apply pressure on—the state bureaucracy.* The prominence of intra-state conflicts under debilitated dirigisme argues against a straightforward application of corporatist models.<sup>81</sup> As for the U.S., Martin draws a fascinating picture of BAs serving the conservative ideology of presidents like Reagan or Hoover “committed to reducing . . . [government’s] scope and to building up parallel mechanisms for control outside the state . . . [so as to] enhance business capacity in [the] dream of the ‘associative state.’”<sup>82</sup> Yet Putin would be the last president guilty of endorsing a minimalist state vision: rather than being guided by laissez-faire norms in the context of an institutionally cohesive apparatus, as in the U.S. case, Putin’s empowerment of BAs is rooted in debilitated dirigisme—the failure of an *activist* state to control its agents.

China may provide a more promising parallel. More authoritarian than Russia, China is commonly viewed as a case of *étatiste* modernization. A steady devolution of political control from the center toward the regions, since the end of the 1980s has raised issues of internal sovereignty for the Chinese leadership.<sup>83</sup> The central Chinese state has relied on a variety of mechanisms, notably the vertically integrated Communist Party and the “cadre evaluation” promotion schemes, to control the regional state agents. These institutional mechanisms offered the Chinese state principal more robust checks on its agents than did potential alliances with societal associations. What makes the China comparison remarkable, however, is that the *local* state agents *did* draw on BAs to accomplish their goals *in defiance of the center*.<sup>84</sup> The Chinese case suggests that the game played by the Russian state principal can be reversed: state agents, too, can ally with organized business to resist the dirigiste center.

## Political Entrepreneurship Redux: Business Domination Versus Bureaucracy Discipline

The propensity of Putin’s administration to centralize control over civil society has been widely noted, and would seem to support the “power contest” version of PE theory. However, while securing authority over large corporations in resource

---

81. Such accounts fuse democratic and authoritarian models of corporatism, arguably stretching the concept beyond its analytical utility. Paul Kubicek, “Variations on a Corporatist Theme: Interest Associations in Post-Soviet Ukraine and Russia,” *Europe-Asia Studies* 48 (1996): 27–46.

82. Martin, “Business and the New Economic Activism,” 53.

83. Yasheng Huang, “Managing Chinese Bureaucrats: An Institutional Economics Perspective,” *Political Studies* 50 (March 2002): 61–79.

84. This argument is developed in Kenneth Foster, “Associations in the Embrace of an Authoritarian State: State Domination of Society?” *Studies in Comparative International Development* 35 (Winter 2001): 84–109. Foster notes that “independent [business] associations . . . actually seek to be co-opted by an authoritarian state” (84); Russian BAs, notably, have likewise welcomed the patronage of the Presidential Administration.

sectors has clearly been on the administration's agenda, such a goal has *not* driven the cross-sectoral business institutionalization.

In fact, government management of the "state-endorsed" BAs has become *less* authoritative under Putin. In the 1990s, many BAs were created by the government to fulfill a particular function prescribed by the state (mostly dictated by neoliberal reforms); given such instrumentalist objectives, the state was unwilling to "let an association go."<sup>85</sup> Frequently, BAs were *de facto* integrated into their birth-giving state structures. Today, the initiative for BA support comes from the Presidential Administration, not from the functional ministries. Also, BAs are *encouraged* rather than directly created. This is done not via state financing, but by promising the entrepreneurs access to policymaking. Curiously, the leader of a major BA related that OPORAs founding members, aiming to increase the association's leverage with the government in the future, asked the Presidential Administration to delegate a leader for their new organization, *yet the administration explicitly declined to get involved in BA's internal politics.*<sup>86</sup> This approach diverges quite radically from the establishment of nominal structures to execute predetermined state functions in the 1990s.

Unlike other sectors of civil society pursuing an array of potentially sensitive issues, for example, media freedom or an army draft, organized business remains *business*: after all is said and done, the goal is to make a profit. Once this fundamental difference is acknowledged,<sup>87</sup> the divergence between the Kremlin's approach to BAs and other civil society segments becomes easier to grasp. As a pro-market statist bent on increasing national prosperity while controlling dissent, Putin has been a welcome ally for organized business. Notably, the Chinese business elite has also been portrayed as an eager participant in the state-defined intermediation framework rather than part of a nascent Western-style "civil society." However, while single Chinese firms overwhelmingly collude with lower-level bureaucrats, Russian businesses begin to present a united front to resist them.<sup>88</sup> The *ad infinitum* discussions of Putin-oligarchs wars in the literature treat these as representative of state-business ties. Such a perspective is deeply flawed. The controversial implementation of Putin's "equidistance" doctrine<sup>89</sup>

---

85. Examples of such BAs include Union of Metal Exporters, Union of Associated Cooperatives, All-Russian Association of Enterprises to be Privatized, etc. Zudin, *Sistema Predstavitel'stva*.

86. Author's interview.

87. Hart, "Business' Is Not an Interest Group."

88. Margaret Pearson, *China's New Business Elite: The Political Results of Economic Reform* (Berkeley: University of California Press, 1997); Kellee Tsai, "Capitalists Without a Class: Political Diversity Among Private Entrepreneurs in China," *Comparative Political Studies* 38 (November 2005): 1130–58.

89. While the goal of the doctrine was to put each oligarch at an equal distance [*ravnoudalyonnost'*] from direct access to political power, its implementation has been interpreted as the selective persecution of political enemies.

*vis-à-vis* two dozen raw-material empires has obscured contemporaneous but different developments involving hundreds of thousands of enterprises.

Little-known, for example, is the role of the National Project Institute “Social Contract” in “generating the new ideology of state–business relations at the federal level.”<sup>90</sup> A *non-governmental* organization, the Institute<sup>91</sup> refers to itself as a “think-and-do tank,” and was founded in 1999 by Club 2015, a group of 49 businessmen with a progressive vision for Russia’s future as being prosperous and free of corruption. The Institute’s articulation of a structured partnership between business and government coincided closely with the new administration’s agenda.<sup>92</sup>

The cooperative genesis of business institutionalization, beyond presidential feuds with the oligarchs, is also evidenced in the creation of new institutional platforms for state-business interaction. The Council on Entrepreneurship, established in 2000 and headed by the Prime Minister, provided an arena for interaction between 24 businessmen and the government. Since the businessmen were government-picked, including the representatives of medium enterprises along with big business, the latter signaled that it “did not find such format appropriate.” Upon the suggestion of Mikhail Fridman (the head of Alfa Group), Putin, *in a conciliatory response to organized big business*, mandated the inclusion of RUIE’s Management Bureau members in governmental consultative commissions to provide a more exclusive platform for top-caliber business.<sup>93</sup> More than 70 such government-business commissions were plowing through an extensive legislative agenda by the end of 2003.<sup>94</sup>

The state principal’s responsiveness to the demands of *organized* business notwithstanding, it might appear that the 2003 arrest of Mikhail Khodorkovsky, Russia’s richest businessman, supports the “domination” perspective on Russian BAs. Yet RUIE has repeatedly and successfully intervened when administrative power was projected on its associates. In January 2002, RUIE clashed with the General Procuracy over the arrest of a petrochemical company’s executive, who was released following RUIE’s mediation. Given the daunting authority vested in

90. Author’s interview with Zudin, a leading analyst of state–business relations from Tsentr Politicheskikh Tehnologiy, Moscow.

91. Led by Alexander Auzan, an internationally recognized figure in civil society movements, the Institute “was the driving force behind a package of bills to deregulate the Russian economy, of which three have passed a first reading in parliament.” The quote and Auzan’s resume can be seen at the website of Carnegie Endowment for International Peace where Auzan co-chairs the program on the Political Economy of Russian Reforms: <http://www.carnegie.ru/en/staff/71980.htm>.

92. As *Forbes* noted at the time, “reform [was] set in motion . . . when . . . Putin asked his minister of trade, German Gref, to produce a ten-year plan for . . . economic development. Gref worked closely with members of Club 2015 to produce one with a very ambitious (and wholesome) agenda: the reform of pensions, taxes and customs . . . [and] the nurturing of a civil society.” *Forbes Global*, January 7, 2002.

93. Author’s off-record interview with an expert.

94. Author’s interview with an RUIE Management Bureau member.

the Procuracy, such a move—unthinkable in the 1990s—indicated the strengthening of BAs in Russia’s power landscape. In the Yukos case, RUIE wrote three official letters to Putin who declined to “bargain” about Khodorkovsky, but indicated his continuing support of organized business by attending the 13th RUIE Congress in November 2003. *The exertion of administrative pressure on single magnates and the state support of business associations are not mutually exclusive.* Interestingly, while Khodorkovsky’s arrest has been linked to the tycoon’s support of Yabloko, an opposition party, OPORA openly cooperated with Yabloko without triggering any inquiries into the administration.<sup>95</sup> The divergence in the state principal’s treatment of BAs as compared with individual firms parallels the differential impact of these groups on state *agents*, as Frye’s surveys of Russian entrepreneurs underscore: while membership in BAs has been shown to improve the lobbying power of member firms *vis-à-vis* the local authorities, most *individual* entrepreneurs regard suing authorities in the state courts as futile.<sup>96</sup>

If the overall picture of BAs’ rise in the shadow of an activist Russian state principal is one of mutual initiative and a mutually beneficial exchange, the terms of such exchange are not exhausted by the state’s need for economic expertise. Rather, BA empowerment has resulted from the logic of *debilitated dirigisme*. While Russia’s state principal famously vouched to double the country’s GDP in ten years, the delivery capacity of the government has been notoriously limited. Furthermore, some President-favored initiatives squarely contravene bureaucracy’s interests (notably administrative reform) or challenge specific corporations (as the Yukos affair demonstrated). From the state principal’s viewpoint, BAs emerged as the preferred ally.

The central mission of the National Project Institute, “to liberate business from bureaucratic shackles,” must have seemed appealing to the Presidential Administration. Not surprisingly, then, the NGO has conducted numerous studies for the administration, and was even able to push through a number of de-bureaucratization laws.<sup>97</sup> One can hypothesize that the Institute’s further goal, “to integrate business into civil society,”<sup>98</sup> has been re-shaped by the administration for its own purposes, namely to break the intra-state resistance to reforms.

Whatever the precise ideational roots of PE strategy, the examples of BAs qua pressure vehicles abound. Mobilized SMEs have confronted bureaucracy with, by

95. Author’s interview with OPORA’s president.

96. Timothy Frye, “Capture or Exchange? Business Lobbying in Russia,” *Europe-Asia Studies* 54 (2002): 1017–36; Timothy Frye, “Credible Commitment and Property Rights,” *American Political Science Review* 98 (August 2004): 453–66.

97. The list of NPI publications can be viewed on the Institute’s website: <http://inp.ru/ourpub.php>. For the list of NPI-lobbied laws, see the Institute’s page at the website of the Presidential Civil Society Council: <http://www.sovetpamfilova.ru/help/partners/2043/>.

98. NPI homepage: <http://inp.ru/>.

Russian standards, astonishing vigor. In Saratov, Volgograd, Perm, Vladivostok, and other major cities and regions, BAs have significantly reduced administrative barriers.<sup>99</sup> After a decade of bureaucratic *proizvol* [criminal arbitrariness], BAs began to enforce the maxim of economic development through a range of techniques, such as lobbying in regional parliaments, exposing administrative abuse in the media, offering entrepreneurs legal assistance, hammering out the details of new laws with regional heads, or directly taking over the administration of federal programs. The creativity and boldness of such activity is striking. In Saratov, for example, BAs have implemented an electronic system regulating entrepreneurs' access to municipal and state contracts, depriving bureaucrats of substantial "income." CCI has opened "hot lines" for businesses that fell victim to administrative extortion; in the Belgorod region, a publicly accessible journal had been instituted to register illegitimate inspections, and the latter dropped by 40–50 percent as a result.<sup>100</sup> In the city of Samara, CCI set up a "specialized debt institution" to which the governmental property fund delegated the task of financial settlements with debtor enterprises, that is, a function that had been a fertile source of rents for regional governments.<sup>101</sup> (The latter have often seized private property after a staged bankruptcy.) Since 2002, Samara's Chamber has also taken over the on-site administration of investment projects coordinated by the federal Conversion Fund. Since no enterprise can now receive investment loans without the Chamber's approval, the veto powers usually vested in municipal government have been shifted to a BA.

Throughout various regions, OPORA has conducted the struggle for the implementation of the federal law On Defense of Individual Entrepreneurs' Rights During State Inspections. "Until recently, the law was *de facto* sabotaged by most inspection organs under both federal and regional authorities . . . . OPORA representatives have managed to exact from the leaders of internal affairs organs the issuance of an order mandating their employees to sign the inspection register." (Pre-inspection signatures increase transparency and make unannounced "check-ups" harder.) Notably, this information as well as a promotional section for OPORA are posted on the official website of the regional Voronezh administration.<sup>102</sup> Perhaps local power-holders are recognizing that partnerships with BAs earn them points in the capital.

The anti-bureaucratic momentum of BAs' activity is often directed explicitly by the federal organs, as in the case of the "Coordination Council" under the

---

99. CIPE and USAID, *Strengthening Local Democracy in Russia: The Case for Business Associations*, Case Study No. 0505, February 2006.

100. CCI and CIPE, *Deyatel'nost'*, 54.

101. CCI, CIPE, and USAID, *Otsenka potrebnostey nuzhd delovogo soobshchestva, predstavlyayushogo Rossiyskiy malyy biznes*, Project report, February 2003, 6. (Source for this and the next paragraph.)

102. [http://admin.vrn.ru/\\_region.asp?rzd=gro](http://admin.vrn.ru/_region.asp?rzd=gro).

chief federal inspector of the Tyumen region. The Council meets weekly to monitor the implementation of the new federal legislation on economic de-bureaucratization. As Council members, OPORA representatives list obstacles to entrepreneurial activity created contrary to federal laws by state employees.

Organized *big* business has confronted state agents through different means: rather than stemming administrative harassment at the *implementation* stage, RUIE has been “employed” by the state principal to reduce opposition to federal *legislative* reforms. Analysis of policy struggles shows the different mechanisms involved.

The prioritization of Russia’s pension system, one of the most neglected reform areas in the 1990s, in Putin’s modernization program came as no surprise. Neither did the resistance of subordinate agencies. The Ministry of Economic Development and Trade (MEDT) had elaborated a new legislative project on pensions in 2001, only to have it returned five times by lower level agencies, which proposed massive corrections in a cycle of delay that MEDT vice-minister Mikhail Dmitriev called “a situation of crisis.”<sup>103</sup> Two issues were at stake: the permissible scope of the private sector in pension provision and the management of the investment of public pension shares. On both aspects, the MEDT proposal would have jeopardized, if implemented, the prerogatives of public bureaus involved in the allocation of pension money, most notably those of the Russian Pension Fund (RPF). RPF’s own proposal sought to retain the Fund’s powers, keeping out the private providers. Meanwhile, the high stakes involved (up to \$50 billion in accumulated pension contributions by 2010) had galvanized business into action. In March 2001, RUIE’s Management Bureau had assembled a group of experts who, within months, drafted an extensive proposal envisioning a three-tier, partly privatized pension system. Dismissing RPF’s proposal as “a superficial attempt at modernization,” RUIE touted its own alternative directly to Putin in April, noting that “the interests of business circles fully overlap with the long-term interests of the state in the case of pension reform.” Later, RUIE defended MEDT’s project as similar in spirit to its own, sharply taking sides against RPF. By the end of 2001, RUIE synchronized its proposal with some of Dmitriev’s suggestions, creating the basis for the laws On State Pensions and On Mandatory Pension Insurance, which Putin signed in January 2002. The laws fixed private pension funds as an integral part of the pension system; the addition of a savings-based element (to the pay-as-you-go system) delighted financial companies expecting enormous profits from managing the pool of pension savings.

---

103. Compiled references on pension reform: *Vedomosti*, September 13, 2001; MEDT, Private Pensions In The Russian Federation, Policy Memo, November 2003; Prime-Tass News Wire, April 16, 2001; Prime-Tass News Wire, April 18, 2001.

The fight over banking sector reform proved more dramatic. Since Russia's 1998 financial meltdown, the World Bank had pushed for real competition and international accounting standards in the sector. The opposition of Russia's Central Bank, however, rendered quixotic the World Bank's quest. After all, "real competition" would force the Central Bank to abandon its commercial functions and shed its equity stakes in Sberbank and Vneshtorgbank, Russia's mammoth state banks.<sup>104</sup> In July 2001, "the situation literally exploded" when RUIE proposed its own "ultra-radical version, . . . a banking reform manifesto of sorts." The brain child of a tycoon banker, Aleksandr Mamut, RUIE's proposal called for harsh capitalization and licensing requirements, explicitly advocating a drastic reduction in the number of operating banks (allegedly to stabilize the system); even more boldly, the proposal advanced licensing restrictions to be imposed on the powerful state banks. Next to such a revolutionary project, the World Bank's suggestions appeared meekly "academic." Policy analysts did not give RUIE's endeavor a chance, given the "forceful resistance by Central Bank and Sberbank." Yet the actual denouement proved more intricate. Starting in August 2001, RUIE and the Central Bank outdid each other in "plucking citations in support of their respective positions" out of a 400-page World Bank report on Russian banking. The fact that the Central Bank, a traditionally parochial but powerful institution, took RUIE's position so seriously attests not only to the political weight Russia's formally organized business had acquired, but, crucially, to the masterly maneuvering of Putin's administration. While RUIE's "manifesto" was predictably doomed in its original shape, not least because of the associational mobilization of hundreds of small banks that would be eliminated if the proposal were implemented,<sup>105</sup> Putin's team did not reject it outright. Instead, Prime Minister Kasyanov announced at the Council on Entrepreneurship that the government would consider a "more elaborate" proposal from RUIE. This signal "created chaos in the Central Bank." Although it seemed unlikely that Putin would be won over by the radical musings of an oligarch, the Central Bank accelerated the work on its own reform proposals, making major policy concessions in the Kremlin's favor, including more stringent bank licensing procedures.

The state's monopoly on adjudication has also been contested by BAs. RUIE, OPORA, CCI, and Business Russia have created a system for non-judicial resolution of corporate disputes, in which the network of increasingly popular

---

104. Compiled references on banking reform: *Kommersant Vlast'*, September 2, 2002; *Izvestiya*, July 5, 2001; *Vedomosti*, July 7, 2001; *Kommersant*, July 12, 2001; *Vremya Novostey*, September 10, 2001; *Vremya Novostey*, July 31, 2001.

105. Two banking associations mounted an impressive campaign against RUIE's "oligarchic" proposal. In an open letter to Putin, the associations deployed market rhetoric to reject harsher supervision of the sector. The policy war between formal business associations, as opposed to single corporations, is noteworthy in the context of this article. See Aleksandr Semyonov, "RSPP Ne Ponravilsya Bankiram," *Kommersant*, August 13, 2001.

peer courts [*treteiskie sudy*] provides an alternative to the profoundly corrupt state judiciary. The critical role of BA-based arbitration was underscored by the jealous reaction of the Russian *state* courts. The latter, vigorously defending their rent-generating domain, pushed through legislation subordinating BA verdicts to state courts' revision.<sup>106</sup> By creating alternative mechanisms to settle disputes, organized business directly challenged the prerogatives of state agents.

The examples of RUIE involvement in Russian economic policy suggest the diverse mechanisms through which the state principal attempts to exert pressure on subordinate agencies. In the case of pension reform, the state principal's law draft largely reflected RUIE's proposal, giving the association a strong incentive to use its publicity resources and lobbyist clout in the draft's defense. In the banking reform case, the state principal signaled attention to RUIE's proposal, forcing the subordinate state agency into elaborating its own, more reform-friendly version lest the "radical" RUIE plan be adopted. In the case of court reform, BAs moved to supplant the state agencies altogether with their own institutional platform for market-compatible conflict resolution.

The central state's "boomerang" strategy of business empowerment—to prod subordinate agencies into modernization—can backfire. The work on the mid-term economic program for Russia's development showed that organized business can sometimes challenge the state organs behind its empowerment. The economic plan known as "Gref's program" had been designed before Putin's first election in 2000, and was viewed as outdated at the time of his reelection in 2004. The MEDT and the RUIE were concurrently—and *competitively*—engaged in preparing their respective versions of the new program.<sup>107</sup> However, such cases of rebellion have been rare; the (im)balance of power between the Presidency and the affiliated reformist ministries on the one hand, and organized business on the other, has been well understood by the latter. As a BA leader noted, the Presidential Administration "is above the system and can promote associations without fearing pressure from them."<sup>108</sup>

BAs have had no reservations, however, about deploying their new leverage against the extra-presidential government agencies. Economic actors have mobilized to take advantage of the institutional niches yielded by the intra-state conflict. This dynamic harbors great theoretical promise for scholars concerned with institutional evolution; Russian specialists, in particular, may find the parallel to Gorbachev's revival of civil society as a way to put pressure on the Communist Party during *glasnost*' intriguing.

---

106. Author's interview with the legislation department chair at CCI.

107. *Nezavisimaya Gazeta*, April 23, 2002.

108. Author's interview with the president of Business Russia.

**Post-Communist Business Interests: To Be Continued. . .**

This article has addressed collective action by firms in an over-bureaucratized state attempting to transform its economic policies. The descriptive inference suggested successful formal mobilization of Russian business at the federal cross-sectoral level. The legacy of “oligarchic” state capture in the 1990s and the general weakness of Russia’s civil society have discouraged the interest of political scientists in formally organized state-business intermediation. The key causal thesis argued that the institutionalization of Russian business has been driven by the mismatch between the state’s developmental ambitions and its institutional capacity. The state principal presiding over materially and morally enervated—yet powerful—state structures facilitates entrepreneurs’ organization by institutionalizing BAs’ access to policymaking. This strategy affords the principal alternative platforms for policy formation, monitoring, or implementation.

The logic of debilitated dirigisme identifies a theoretical niche in PE scholarship. In assuming intra-state sovereignty, PE perspectives miss the key problem of most “emerging markets” and transition economies in particular. In identifying a novel PE mechanism for business institutionalization, this article also raises larger theoretical issues that await further research.

The political salience of various cleavages in the business community has long been a matter of intense debate. Recently, Hart argued that “business is not an interest group” due to the competitive market pressures, sector-specific preferences, and other polarizing influences.<sup>109</sup> The post-communist experience has not been tapped adequately in this context. The implicit recognition that the goals of many firms in the emerging markets differ fundamentally from those of “mature” capitalists—consider, for example, the former’s defense of basic property rights or the search for finance in the absence of adequate capital markets—has yet to be translated into a new understanding of how those differences alter collective action by firms. Economics-influenced approaches assume that, once state property is privatized, the new capitalists will unite to demand property rights and state accountability. Conversely, the “state capture” literature implies that the primary cleavage in the entrepreneurial community, between firms with access to the government and those left to their own devices, is largely unbridgeable. Both perspectives were reflected in the author’s interviews with entrepreneurs. The common outrage at the underdevelopment of market infrastructure and state predation seemed to overwhelm industry-specific differences; at the same time, SME representatives did not spare verbal ammunition to attack big business for bending the rules to its advantage. Clearly,

---

109. Hart, “Business’ Is Not an Interest Group.”

the outcome of these clashing “interest”-determining forces deserves further analysis, not only in the context of debilitated dirigisme. Also, it is far from clear whether the number of business cleavages does, indeed, rise as capitalism matures, that is, as the finance and production networks grow increasingly complex. Finally, the intensity of cleavages presents a separate analytical matter: while the *number* of potentially dividing issues may rise in developed markets, the *intensity* of any given cleavage may decrease if potential losses are minimized. Possibly, profit losses in the course of “civilized” competition are less costly on average, financially and/or psychologically, than defeats in illegitimate or unregulated contests over the economic pie. In other words, just as institutionalized democracy decreases the potential losses of rival *political* elites (the not-so-subtle difference between losing an election and being shot), a similar mechanism may be at work in institutionalized capitalism with respect to *economic* contenders.

Organized business differs fundamentally from other mobilized interests, such as church-goers, environment activists, etc. The literature has identified members’ profit orientation and the large pool of financial and political resources as the main differences. Furthermore, organized—and especially big—business is considered less legitimate than other interest groups, leading to the relative secrecy of its organizations. Here, the post-communist experience is particularly interesting, since many “big businesses” resulted from quasi-criminal privatizations and takeovers. Hence, the unions of big business may suffer from a *dual legitimacy deficit*, given the public’s aversion to concentrations of corporate power in general, and to the illegitimate birth of post-communist big *business* in particular. In such societies, however weakly democratic, politicians face a constant temptation to earn populist dividends by engaging in anti-business witch hunts. It could be assumed that, as strategic actors, large corporations are acutely interested in neutralizing public perceptions, so as to deprive the state of some of its potentially destructive leverage. In this context, what is the role of formal, transparent BAs engaged in legislative “developmental” reforms? To the extent BAs *legitimate corporate power qua political force*, they dramatically change the interaction between society, business, and state. In their quest for legitimacy, some Russian tycoons have markedly improved corporate governance. Whether BAs can serve the same purpose remains to be examined.

The link between economic development and business mobilization presents another area for additional research.<sup>110</sup> The most passionate naysayer, Olson, disparaged the prospects for the contribution to public well being by business

---

110. On transition states, see William Pyle, “Collective action and post-communist enterprise: The economic logic of Russia’s business associations,” *Europe-Asia Studies* 58 (June 2006): 491–521.

organizations (barring the very encompassing groups).<sup>111</sup> Conversely, the emergent literature on state-business networks, consciously aiming to transcend the “free market versus developmental state” dichotomies, is exuberant: legislative breakthroughs, asset restructuring, and domestic reinvestment are supposedly encouraged by institutions that pool expertise, spread risk, and generate trust among political and economic actors. Such optimistic scenarios may be thwarted in the context of debilitated dirigisme, however. The intra-state struggle for control implies that any new policies may be held hostage to the bureaucratic agencies threatened by BAs.

---

111. Mancur Olson, *The Rise and Decline of Nations* (New Haven, CT: Yale University Press, 1982).