

Businessman Candidates: Special-Interest Politics in Weakly Institutionalized Environments

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December 15, 2003

Abstract

Students of politics are familiar with two common forms of influence exercised by special interests over politicians: the provision of financial support to favored candidates during election campaigns, and the application of lobbying power when dealing with elected politicians. However, in certain political environments, representatives of special interests – in particular, business owners and managers – choose to run for office themselves, rather than simply relying on the political system to protect their interests. This paper addresses the question of why and in what circumstances businesses will follow this alternative path of influence. In so doing, it aims to contribute to an understanding of the role of institutional environment in determining the nature of special-interest politics.

Expanding upon existing models of electoral competition and special-interest politics, we show that two features of weakly institutionalized environments contribute to the emergence of “businessman candidates.” First, when political parties and other reputational mechanisms are weak, professional politicians will often be tempted to renege on promises made during an election campaign. In such an environment, businesses may prefer to run owners or managers of the firm for public office, knowing that the interests of such individuals will be aligned with those of the firm after the election. Second, when political competition for rents among businesses is large (due to the absence of checks on arbitrary exercise of political power, and perhaps due to a high concentration of economic power among businesses), having somebody in office who can protect the firm’s interests is imperative. Coupled with professional politicians’

commitment problem, this implies the prevalence of businessman candidates.

We illustrate the results of our model by drawing upon the experience of a recent gubernatorial election in Krasnoyarskii Krai – a large Siberian region dominated by two industrial interests, with the winner of the election the former general director of one of the two firms – which in its particulars exemplifies a more general trend in Russian politics.

1. Introduction

Students of politics are familiar with two common forms of influence exercised by special interests over politicians: the provision of financial support to favored candidates during election campaigns, and the application of lobbying power when dealing with elected politicians. However, in certain political environments, representatives of special interests - in particular, businessmen - may choose to run for office themselves, rather than simply relying on the political system to protect their interests. This paper addresses the question of why and in what circumstances businesses will follow this alternative path of influence.

The phenomenon of “businessman candidates” first caught our eye in postcommunist Russia, where owners or managers of large businesses are increasingly running for public office. We present some evidence below of the prevalence of this political strategy in that country. However, there are numerous examples of similar candidacies in other political-economic contexts. In Ukraine, for example, a country which shares a number of institutional characteristics with Russia, large business owners and managers have been elected to parliament and mayoral office.¹ Outside of the postcommunist world, Sheehan (1968) reports that over one fifth of the seats in the early German Reichstag were estate owners, and that during the 1870s and 1880s businessmen were increasingly drawn into politics. Various

¹See, e.g., “Banker Wins Ukrainian By-Election,” Ukrainian Television First Channel (BBC Monitoring), June 9, 2003; “Ukrainian Paper Profiles New Lviv Mayor,” *Ukrayina Moloda* (BBC Monitoring), April 4, 2003; or “Kyiv Developer Eyes Rada, Council Seats,” *Kyiv Post*, March 28, 2002. The last story profiles an attempt by a Kyiv real estate developer to capture not only a parliamentary seat through his own candidacy, but up to 30 seats in the Kyiv city council through the candidacies of employees of his real estate firm.

authors (e.g., Bradley and Zald 1965, Pessen 1972, Kipp 1977) have noted that 19th-century urban mayors and aldermen in the U.S. were disproportionately drawn from the business elite. In Thailand, “tycoons” dominated party politics in the 1980s (Laothamatas 1988), while in early 20th-century Chile large landowners typically served in parliament at some point in their lives (Zeitlin, Neuman, and Ratcliff 1976).

What all of these examples share is an environment that can be thought of as “weakly institutionalized” in two respects. First, politicians in immature democracies will be more tempted to renege on campaign promises, as institutional mechanisms such as political parties which discourage opportunistic behavior by their members (Cox and McCubbins 1994) are underdeveloped. Consequently, special interests have lesser confidence that promises made in (perhaps implicit) return for campaign donations will be honored after the election, and that they won’t be asked to pay again for what they have purchased already. Given this commitment problem on the part of professional politicians, special interests will be inclined to lend their support to a candidate whom they know will be supportive after the election – in the case of a business, to a manager or owner of the firm.

Second, the identity of an officeholder is typically more critical for business success in developing and transition countries. Competition for rents among businesses is large (often due to a high concentration of economic power in the hands of a few firms), and checks and balances on arbitrary exercise of political power are weak. Thus, having *somebody* in office who can protect one’s interests is imperative. Coupled with professional politicians’

commitment problem, this implies the prevalence of businessman candidates.

Our paper follows Acemoglu, Robinson, and Verdier (2003) in exploring the political economics of environments with very weak institutions. In our paper it is weak political institutions (that do not allow politicians to commit to some policy ex-ante) and weak economic institutions (that make firms dependent on the identity of an elected official) that make the appearance of businessman candidates more likely. The willingness of voters to cast their ballots for such candidates implies that a “stationary bandit” (Olson 1993) may emerge endogenously in democracies. However, the alignment of the businessman candidate’s interests with those of his benefactor suggests that society may nonetheless be worse off with the bandit inside the castle.

Our model contains elements of two important strands of the electoral-competition literature. First, in modeling the role of businesses in financing candidates (as well as lobbying elected politicians for preferable policies), this paper builds on previous work on special-interest politics.² Second, by focusing on political competition in an environment in which politicians cannot credibly promise to pursue policies after an election, our model shares an affinity with models of “citizen candidates” who run for office in order to implement their preferred policy (Osborne and Slivinski (1996), Besley and Coate (1997)). In our model, special interests may choose to nominate and financially support “businessman candidates”

²See Grossman and Helpman (2001) for a review of the literature. Our model of campaign finance builds especially on Baron (1994), Grossman and Helpman (1996), and Persson and Tabellini (2000, section 3.5), while our model of lobbying follows Grossman and Helpman’s (1994, 1995) application of Bernheim and Whinston’s (1986) model of common agency to lobbying.

in order to influence the outcome of lobbying after an election.

One implication of our formal model is that businessman candidates may be more frequently observed when the industrial concentration of the political unit is “moderately high.” In a one-company town, it is relatively easy for the firm to control the politician, since the politician is unable to extract rents by playing one firm off of another. Thus, there is little incentive to divert a valuable manager from business to politics. Further, when there are many companies, no one company has a big enough stake to bear the cost of running one of their own people for office, and no competing company has a big enough stake to drive up the cost of bribing the politician. Only when industrial concentration is moderate is the balance of rents and bargaining power such that firms will be driven to run their own candidates for public office. A further implication is that when voters are influenced in part by campaign expenditures, and when one candidate is supported by a local monopoly while another is backed by a potential entrant, the former will have an electoral advantage. This follows from a well-known principle in industrial-organization theory: monopolists will often be willing to spend more to protect their market power than will potential entrants to earn a share of the rents.

We illustrate the first of these two key results by drawing on the experience of a recent gubernatorial election in Krasnoyarskii Krai, a large Siberian region dominated by two industrial interests. In that election, the competition for rents and inherent commitment problems characteristic of Russian politics led to a decision by one of the two companies to

throw its support behind a candidate who had previously served as general director of the firm. It was a fortuitous decision: that candidate ultimately won the election, benefiting from substantial financial support from a company that presumably knew it could trust him to protect its interests after the election.

2. The Setup

Consider a game between two businesses, each of which is attempting to influence government policy to its benefit. In our model, candidates cannot make binding policy promises during an election campaign. Rather, policy is chosen after the election, with choice of policy influenced by the lobbying strategies of the two businesses. Obviously, the outcome of this lobbying process may be more favorable to a business if a politician biased in favor of its interests has won the election. Consequently, each business may attempt to influence the outcome of the election through nomination of a “businessman candidate” who will represent its interests should that candidate win the election, as well as through the distribution of campaign funds to influence the outcome of the election. Businessman candidates have the advantage that they can be expected to act in the interests of the business if elected. Nonetheless, a business may choose to throw its support behind a professional politician, as the nomination of a businessman candidate entails an opportunity cost in that a valuable manager must be “used” on activity which is not directly business-related.

In particular, consider a game with four distinct stages.

- *Nomination stage:* Each business decides between supporting a professional politician, who is not inherently biased for or against either business, and supporting a businessman candidate, who if elected will act as a perfect agent of the business from which he emerged. Formally, each business $B \in \{1, 2\}$ chooses a candidate $k_B \in \{p, b\}$, where if $k_B = b$ the business incurs an (opportunity) cost of C . Only candidates nominated by a business may run, so the election will be between candidates k_1 and k_2 .
- *Campaign stage:* Each business chooses a level of campaign spending in support of its candidate. As discussed below, campaign spending increases the share of voters who are biased in favor of a business's candidate, and thus the probability that candidate will be elected. Let c_B be the level of campaign funds expended by business B in support of its candidate. (As the business will weakly prefer its own candidate, we can ignore the theoretical possibility that support may be provided to the opposition candidate.) Given that funds spent on the political campaign entail an opportunity cost for the business, a reasonable assumption is that the marginal cost of campaign expenditures is increasing. For simplicity, let the cost of spending c_B in support of one's candidate be $\frac{1}{2}(c_B)^2$.
- *Election stage:* Assume a continuum of voters, normalized to mass one, with each voter either an employee of one of the two businesses or an "unattached" voter. Let N_J be the mass of voters in group J , with $J = 0$ representing unattached voters and $J \in \{1, 2\}$ representing voters employed by business B . Obviously, $\sum_J N_J = 1$.

Employed voters have preferences over the business-related policy chosen after the election by the winner of the election; for simplicity, we assume that unattached voters are indifferent over these policies. Let $v_J(s)$ be the *per-voter* utility of an employee of business J from policy (e.g., subsidy) s , *net of any bribes* paid to the elected politician. Our assumption that unattached voters are indifferent is equivalent to assuming that $v_0(s)$ is independent of s . Since policy will be uniquely determined by the winner of the election (given each business's lobbying strategy, which can be anticipated), utility can be rewritten as $v_B(k_B)$. Thus, for example, an employee of business 1 can expect to receive utility of $v_1(k_2)$ if the candidate supported by business 2 wins.

In addition to policy utility, voters have non-policy-related preferences over the candidates supported by each business. As is standard in the probabilistic-voting literature, we assume that these preferences have a random component, so that the identity of the winner of the election cannot be determined before election day.³ In particular, assume that voter i has an ideological preference for the candidate favored by business 2 given by:

$$\sigma_i + \delta + h(c_2 - c_1) \tag{2.1}$$

The term σ_i is an individual preference for the candidate favored by business 2, with voters' preferences σ_i distributed uniformly over $[-\frac{1}{2}, \frac{1}{2}]$. Aggregate uncertainty about voters' preferences is given by δ , which represents a random preference for the candi-

³See especially Lindbeck and Weibull (1987).

date supported by business 2 shared by all voters, but unknown prior to election day. Assume δ to be distributed uniformly over $\left[-\frac{1}{2\gamma}, \frac{1}{2\gamma}\right]$. The impact of campaign spending on voter preferences is captured by $h(c_2 - c_1)$, where h is a scalar representing the effectiveness of campaign spending. We might expect h to be larger, for example, where voters are less well-informed.

- *Lobbying stage:* After the election, the governor has to make a policy choice $s \in S$, where S is a compact subset of R^M . If the elected candidate is a representative of firm J , he slavishly follows firm J 's interests, i.e. solves $\max_{s \in S} \{U_J(s)\}$, where $U_J(s)$ is firm J 's utility from policy s , gross of any bribes.⁴ If the governor is a professional politician with his own preferences $g(s)$, the firms participate in a lobbying game. Specifically, each of the two firms submits a payment schedule $b_i : S \rightarrow R$, which specifies a bribe firm J would pay for each possible policy choice. The governor then solves $\max_{s \in S} \{b_1(s) + b_2(s) + g(s)\}$.

3. Equilibrium Analysis

We are interested in subgame perfect Nash equilibria. In this section, we solve the game by backwards induction: First, we analyze what happens at the lobbying stage. Second, we examine voter behavior during the election, given voters' expectations about what will

⁴In an earlier version of this paper, we explored the possibility that the candidate's interests might be only partially aligned with those of his firm.

happen at the policy stage. Third, we solve for the optimal allocation of campaign finance by each business to its favored candidate. Finally, we consider the decision made by each firm as to whether to support a professional politician or field a candidate of its own, and find equilibria of the game.

3.1. Lobbying Stage

The following technical result provides a description of all subgame perfect Nash equilibria at the lobbying stage when a professional politician (not businessman) holds public office.

Lemma 1. *(Bernheim and Whinston, 1986) $(b_i^*(\cdot), s^*)$ is a subgame perfect Nash equilibrium if and only if*

- (1) $s^* \in \arg \max_{s \in S} \{b_1^*(s) + b_2^*(s) + g(s)\}$.
- (2) for any J , $s^* \in \arg \max_{s \in S} \{U_J(s) - b_{-J}^*(s) + g(s)\}$.
- (3) for any J , there exists some s^j such that $b_1^*(s^j) + b_2^*(s^j) + g(s^j) = \max_{s \in S} \{b_1^*(s) + b_2^*(s) + g(s)\}$ and $b_J^*(s^j) = 0$.

Though all our qualitative results could be carried through for this general setup, we make some additional assumptions to simplify the exposition. First, we assume that a professional politician has no own preferences over policy choice, so that $g(s) = 0$. Since $U_J(s)$ are continuous, there exist s^i be such that $s^i \in \arg \max_{s \in S} \{U_J(s)\}$, $J = 1, 2$. We normalize (additively) the game so that $U_1(s^2) = 0$. We assume that the sets $\arg \max_{s \in S} \{U_J(s)\}$ are

singletons.⁵ Finally, we assume that $\{s^1\} \in \arg \max_{s \in S} \{U_1(s) + U_2(s)\}$. This implies that $U_1(s^1) \geq U_2(s^2)$, but this is without any loss of generality.

Bernheim and Whinston (1986) define the notion of a truthful Nash equilibrium for this kind of game, describe them, and provide arguments as to why these equilibria are focal at this setting. Basically, truthfulness means that agents' bribe schedules reflect their preferences over policy choices. With our assumptions, we have the following description of a subgame perfect truthful equilibrium, where $V_J(s)$ refers to firm J 's utility *net of bribes* from policy s , and V_P refers to the politician's utility from the lobbying game.

Proposition 1. *There exists a unique truthful subgame perfect Nash equilibrium of the lobbying game when a professional politician is in office, where agents' final payoffs are $V_1 = U_1(s^1) - [U_2(s^2) - U_2(s^1)]$, $V_2 = U_2(s^1)$, and $V_P = U_2(s^2) - U_2(s^1)$.*

Obviously, if the businessman candidate of firm J has won election, $V_J = U_J(s^J)$ and $V_{-J} = 0$. In all that follows, we assume that utility from the lobbying game is spread equally among all employees of the firm, so that $N_J v_J = V_J$.

3.2. Election Stage

We can find the share of unattached voters who support k_1 by referring to voters' ideological preferences (2.1): all unattached voters with $\sigma_i < h(c_1 - c_2) - \delta$ support candidate 1, which

⁵This is actually not a restriction: it is enough to fix any points in $\arg \max_{s \in S} \{U_J(s)\}$.

given that σ_i is distributed uniformly over $[-\frac{1}{2}, \frac{1}{2}]$ implies that k_1 receives proportion

$$\frac{1}{2} + [h(c_1 - c_2) - \delta]$$

of the votes of unattached voters.

In contrast, employed voters have preferences over both policy and ideology. Focus on a voter employed by business 1. A voter in that group will vote for the candidate supported by the business so long as

$$v_1(k_1) \geq v_1(k_2) + \sigma_i + \delta + h(c_2 - c_1)$$

which given the distribution of σ_i implies that the share of voters employed by business 1 who support that business's candidate is:

$$\frac{1}{2} + [v_1(k_1) - v_1(k_2) + h(c_1 - c_2) - \delta]$$

Similarly, the proportion of voters employed by business 2 who support not their candidate but the candidate offered by business 1 is:

$$\frac{1}{2} + [v_2(k_1) - v_2(k_2) + h(c_1 - c_2) - \delta]$$

Summing across the three groups, and recalling that the proportion of voters in group J

is N_J , we can derive the total vote for k_1 as:

$$\frac{1}{2} + \left[\sum_{J=1}^2 N_J (v_J(k_1) - v_J(k_2)) + h(c_1 - c_2) - \delta \right]$$

The probability that k_1 wins the election is then the probability that this expression is greater than or equal to $\frac{1}{2}$, which given the uniform distribution of the random variable δ over $\left[-\frac{1}{2\gamma}, \frac{1}{2\gamma}\right]$ is:

$$\frac{1}{2} + \gamma \left[\sum_{J=1}^2 N_J (v_J(k_1) - v_J(k_2)) + h(c_1 - c_2) \right] \quad (3.1)$$

This expression says that the probability that the candidate supported by business 1 will win is increasing in the degree to which voters employed by business 1 expect to be better off if k_1 wins the election (weighted by the number of those voters), decreasing in the degree to which voters employed by business 2 expect to be worse off if k_1 wins the election (weighted by the number of those voters), and increasing in business 1's advantage in campaign spending, . Similarly, the probability that k_2 will win the election is given by:

$$\frac{1}{2} + \gamma \left[\sum_{J=1}^2 N_J (v_J(k_2) - v_J(k_1)) + h(c_2 - c_1) \right] \quad (3.2)$$

3.3. Campaign Stage

Expressions (3.1) and (3.2) can be used to derive the optimal level of campaign spending by each business c_1 and c_2 . Without loss of generality, focus on the problem faced by business

1. Business 1 chooses c_1 to maximize the aggregate utility of its employees, which given that ideological differences cancel out is equivalent to maximizing the probability-weighted policy utility from each candidate winning, less the cost of campaign expenditures $\frac{1}{2}(c_1)^2$.

Formally, business 1 solves:

$$\max_{c_1} \Pr(k_1 \text{ wins} \mid c_1, c_2) N_1 v_1(k_1) + [1 - \Pr(k_1 \text{ wins} \mid c_1, c_2)] N_1 v_1(k_2) - \frac{1}{2}(c_1)^2$$

Plugging in from (3.1) and solving for the first-order condition gives:

$$c_1^* = \gamma h N_1 [v_1(k_1) - v_1(k_2)]$$

Intuitively, this expression says that business 1 will spend more to support its candidate, the more effective is campaign spending h , the larger are the number of employees employed by business 1, and the larger the difference in per-employee utility expected from having k_1 win the election rather than k_2 . If firm 1 is indifferent between governors k_1 and k_2 , e.g., in the case of two professional politicians, it does not spend any money in the campaign, $c_1^* = 0$.

Similarly, campaign spending by business 2 is:

$$c_2^* = \gamma h N_2 [v_2(k_2) - v_2(k_1)]$$

implying an advantage by k_1 in campaign spending of:

$$c_1^* - c_2^* = \gamma h \sum_{J=1}^2 N_J (v_J(k_1) - v_J(k_2)) \quad (3.3)$$

Plugging this into our expression (3.1) for the probability that k_1 will win the election, we can derive:

$$\Pr(k_1 \text{ wins}) = \frac{1}{2} + \phi \sum_{J=1}^2 N_J (v_J(k_1) - v_J(k_2)), \quad (3.4)$$

where $\phi = \gamma(1 + \gamma h^2)$. Note that this says that the probability that k_1 will win the election is determined by two factors. The first, which we will call the *direct policy effect*, is determined by the degree to which voters employed by business 1 expect to be better off if k_1 wins (weighted by the number of voters), less the degree to which voters employed by business 2 expect to be worse off if k_1 wins (weighted by the number of those voters). The second, which we will refer to as the *campaign-finance effect*, reflects a similar set of considerations, but with the differences in utility weighted by the effectiveness of campaign spending. Put differently, voters employed by business 1 will be more likely to vote for the candidate nominated by business 1 both because they recognize that they will be better off if that candidate wins, and because the business's managers recognize that they will be better off, and consequently engage in campaign spending to try to ensure that outcome.

In what follows, it will ease the notation if we rewrite (3.4) as:

$$\frac{1}{2} + \phi \sum_{J=1}^2 N_J (v_J(k_1) - v_J(k_2)), \quad (3.5)$$

Similarly, the probability that k_2 will win as a function of the identity of the candidates can be written as:

$$\frac{1}{2} + \phi \sum_{J=1}^2 N_J (u_J(k_2) - u_J(k_1)).$$

3.4. Nomination Stage

Recalling that running a businessman candidate entails an opportunity cost C , we can derive the condition for business 1 to run a businessman candidate as:

$$\Pr(k_1 = b \text{ wins} \mid k_2) N_1 [v_1(k_1 = b) - v_1(k_2)] \geq \Pr(k_1 = p \text{ wins} \mid k_2) N_1 [v_1(k_1 = p) - v_1(k_2)] + C$$

Plugging in from (3.4), we have the following condition:

$$\left[\frac{1}{2} + \phi \sum_{J=1}^2 N_J [v_J(k_1 = b) - v_J(k_2)] \right] N_1 [v_1(k_1 = b) - v_1(k_2)] \geq \left[\frac{1}{2} + \phi \sum_{J=1}^2 N_J [v_J(k_1 = p) - v_J(k_2)] \right] N_1 [v_1(k_1 = p) - v_1(k_2)] + C \quad (3.7)$$

Recalling that $v_J(s) = \frac{1}{N_J}V_J(s)$, i.e. that per-voter utility is gross utility for the group divided by the mass of voters in the group, expression (3.7) reduces to:

$$\begin{aligned} & \left[\frac{1}{2} + \phi \sum_{J=1}^2 [V_J(k_1 = b) - V_J(k_2)] \right] [V_1(k_1 = b) - V_1(k_2)] \geq & (3.8) \\ & \left[\frac{1}{2} + \phi \sum_{J=1}^2 [V_J(k_1 = p) - V_J(k_2)] \right] [V_1(k_1 = p) - V_1(k_2)] + C \end{aligned}$$

Similarly, the condition for business 2 to run a businessman candidate is:

$$\begin{aligned} & \left[\frac{1}{2} + \phi \sum_{J=1}^2 [V_J(k_2 = b) - V_J(k_1)] \right] [V_2(k_2 = b) - V_2(k_1)] \geq & (3.9) \\ & \left[\frac{1}{2} + \phi \sum_{J=1}^2 [V_J(k_2 = p) - V_J(k_1)] \right] [V_2(k_2 = p) - V_2(k_1)] + C \end{aligned}$$

Expressions (3.8) and (3.9) show that there are two classes of effects from supporting a businessman candidate over a professional politician. First, the utility from winning is weakly greater with a businessman candidate ($V_1(k_1 = b) \geq V_1(k_1 = p)$), so that for a given probability of winning, nominating a businessman candidate increases expected utility. Second, choice of a businessman candidate affects the probability winning through both the direct policy effect and the campaign-finance effect, e.g. $\sum_{J=1}^2 (V_J(k_1 = b) - V_J(k_2))$ is different from $\sum_{J=1}^2 (V_J(k_1 = p) - V_J(k_2))$.

The following proposition relates firms' incentives to nominate and finance candidates to the industrial structure. Now that we identified whether a business will want to nominate

a businessman candidate, given the choice of candidate by the other business, we must substitute the utilities from the lobbying game above into (3.8) and (3.9) and find the conditions for different combinations of k_1 and k_2 to exist as equilibria. We further assume that $U_2(s^1) = 0$, which together with our earlier normalization of $U_1(s^2) = 0$ implies that there is complete competition for rents - each firm receives no policy utility when the other firm's ideal policy is enacted. The following proposition summarizes the results of this tedious but straightforward exercise. The proof is relegated to the appendix.

Proposition 2. *An equilibrium with both firms supporting businessman-candidates ($k_1 = b, k_2 = b$) will exist if:*

$$C \leq \frac{1}{2}U_2(s^2) - \phi U_2(s^2) [U_1(s^1) - U_2(s^2)] \quad (3.10)$$

An equilibrium with firm 1 only supporting a businessman-candidate against a professional politician ($k_1 = b, k_2 = p$) will exist if:

$$\frac{1}{2}U_2(s^2) - \phi U_2(s^2) [U_1(s^1) - U_2(s^2)] \leq C \leq \frac{1}{2}U_2(s^2) + \phi U_2(s^2)^2 \quad (3.11)$$

An equilibrium with both firms supporting professional politicians ($k_1 = p, k_2 = p$) will exist if:

$$\frac{1}{2}U_2(s^2) + \phi U_2(s^2)^2 \leq C \quad (3.12)$$

Further, an equilibrium with firm 2 supporting a businessman-candidate against a profes-

sional politician ($k_1 = p, k_2 = b$) will exist if:

$$\frac{1}{2}U_2(s^2) + \phi U_2(s^2) [2U_1(s^1) - 2U_2(s^2)] \leq C \leq \frac{1}{2}U_2(s^2) + \phi U_2(s^2) [2U_2(s^2) - U_1(s^1)] \quad (3.13)$$

There will always be an C such that one of the first three equilibria will exist, and that conditions (3.10) through (3.12) fully partition $C \in [0, \infty)$. In contrast, there will exist C such that (3.13) is satisfied only when $U_2(s^2) \geq \frac{3}{4}U_1(s^1)$, that is, firm 2's preferred policy provides it with payoff closed to that of firm 1. Further, the interval over which ($k_1 = p, k_2 = b$) is an equilibrium is a subset of the interval over which ($k_1 = b, k_2 = p$) is an equilibrium.

Proof. See appendix. ■

Figure 1 illustrates Proposition 1. When the opportunity cost C of nominating a businessman candidate is sufficiently low, the unique equilibrium has both businesses supporting a businessman candidate. For C sufficiently high, neither business will want to lose a valuable manager to politics, so the unique equilibrium has ($k_1 = p, k_2 = p$). In between these two equilibria is an equilibrium in which business 1 but not business 2 supports a businessman candidate, and possibly (for some smaller interval over C) an equilibrium in which only business 2 nominates a businessman candidate.

Our main comparative-statics results are expressed in the following proposition:

Proposition 3. (i) *Equilibria in which at least one businessman candidate is nominated*

will be more likely, the larger is the utility received by business 2 from its preferred policy $U_2(s^2)$.

(ii) For a given $U_2(s^2)$, the range of values C over which there will exist equilibria in which one rather than two businessman candidates is nominated is increasing in $U_1(s^1)$.

Proof. (i) The equilibrium with $(k_1 = p, k_2 = p)$ will exist only when $\frac{1}{2}U_2(s^2) + \phi U_2(s^2)^2 \leq C$. Clearly, the left-hand side of this expression is increasing in $U_2(s^2)$.

(ii) The equilibrium with $(k_1 = b, k_2 = b)$ will be unique when

$$C \leq \frac{1}{2}U_2(s^2) + \phi U_2(s^2) [U_2(s^2) - U_1(s^1)].$$

Clearly, the right-hand side of this expression is decreasing in $U_1(s^1)$. In contrast, the equilibrium $(k_1 = p, k_2 = p)$ will be unique when $\frac{1}{2}U_2(s^2) + \phi U_2(s^2)^2 \leq C$, where the left-hand side of this expression is independent of $U_1(s^1)$. ■

Result (i) says that what matters most for the existence of businessman candidates is not the value to business 1 of its most preferred policy, but what business 2 is willing to pay for its most preferred policy. For business 1, this represents the price it must pay to get s^1 when a professional politician has won the election, and thus the rent which it can capture if it nominates a businessman candidate who then wins the election. In contrast, since business 2 is smaller, it expects to be outlobbied by business 1 should a professional politician win the election. Therefore, should business 2 support a businessman candidate

who subsequently wins and provides s^2 , that business will be better off by the full extent to which it values its preferred policy, $U_2(s^2)$. Put differently, Proposition 3 says that businessman candidates will be more likely in regions where there is strong competition for rents among businesses, not in regions dominated by a single enterprise which can expect to get what it wants regardless of who wins the election. Result (ii) is similarly intuitive: an increase in $U_1(s^1)$ makes firm 2 less willing to support a businessman-candidate, since the disparity in ex-post benefits (and thus campaign spending) increases.

4. Electing A Stationary Bandit

In this section, we consider the situation when a business is forced to run its representative instead of supporting a politician in a conventional way out of fear that the policy pursued by a professional politician will be too anti-business. While this kind of situation is supported by examples of governor elections in Russia, it is also a much more general phenomenon. One striking example of such a situation is Venezuela, where the oil monopoly has felt compelled to run its own candidate against a leftist one.

Specifically, we drop our assumption that $g(s) = 0$ for an elected politician. For example, let $S = [0, 1]$, and let firm 1 be the only firm in the economy. Then $s \in S$ can be interpreted as a tax rate on firm 1's profits. Then $U_1(s)$ is decreasing with respect to s , while $g(s)$, the utility the elected politician gains from public, is increasing in s . In general, the lobbying-game equilibrium can be described as follows:

Proposition 4. *In any truthful Nash equilibrium of the lobbying stage, a professional politician selects $s^* \in \arg \max\{U_1(s) + g(s)\}$, and firm 1's payoff is $U_1(s^*) - [\max_{s \in S} g(s) - g(s^*)]$.*

So, if the elected official is a professional politician, the chosen policy maximizes the joint payoff of the public, represented by $g(s)$, and the firm. Also, the firm has to compensate the public for the losses incurred as a result of moving the chosen policy from the public's ideal point, $\arg \max_{s \in S} g(s)$, to the one that maximizes the joint payoff, s^* . In other words, the firm has to bribe the politician in order to get a policy more reflecting its interests. Therefore, the higher is the amount of rents the firm can sustain if its representative is elected, the more likely a businessman-candidate would appear. Incorporating the payoff of the lobbying-stage game into the nomination-decision problem, one gets that the firm opts for nominating a businessman candidate if

$$\left[\frac{1}{2} + \phi N_1 \left[U_1(s^1) - \left(U_1(s^*) - [\max_{s \in S} g(s) - g(s^*)] \right) \right] \right] N_1 \left[U_1(s^1) - \left(U_1(s^*) - [\max_{s \in S} g(s) - g(s^*)] \right) \right] \geq C \quad (4.1)$$

Here we do a simple exercise to relate the industrial structure of the economy to firms' incentives to delegate a businessman to politics. Assume an environment characterized by one large incumbent monopolist (firm 1), and many small potential entrants. Suppose that firm 1 decides whether or not to nominate a businessman, knowing that, if a professional politician is elected, he will be choosing between a regime s^1 with a high level of regulation (and hence little competition), or s^2 , where competition is allowed. If s^1 is chosen, then

firm 1 has a monopoly position in the market. Otherwise, there are M firms participating in a Cournot-like competition. Demand is characterized by an inverse demand function, $p(q) = a - bq$, and marginal cost of production for each firm is 0. Then, if there is a monopoly in the market, firm 1's profit is equal to $U_1 = \frac{a^2}{4b}$, while in the competitive market, the profit of each of $M - 1$ entrants (and the incumbent firm) is equal to $U_J = \frac{a^2}{b(M+1)^2}$. Suppose that the incumbent monopoly runs its own candidate against a professional politician that, if elected, would opt for the competitive regime, e.g. since he cares about social welfare. The number of votes that the businessman candidate gets is equal to:

$$\frac{1}{2} + N_1(v_1(b) - v_1(p)) + \sum_{J=2}^M N_J(v_J(b) - v_J(p)) + h(c_1 - \sum_{J=2}^M c_J)$$

and thus the probability of winning is

$$\frac{1}{2} + \phi \frac{a^2}{b} \left[N_1 \frac{(M+1)(M-3)}{4(M+1)^2} - \frac{1}{(M+1)^2} \sum_{j=2}^M N_j \right] \quad (4.2)$$

In the above formula, it is assumed that potential entrants share campaign costs equally, and, more importantly, that they have no 'common-pool' problem with respect to campaign contributions. Nonetheless, a businessman candidate representing potential entrants is impossible, since any candidate would be inclined to favor his own firm over other potential entrants. The above formula shows, that the more competitive is the market (the higher is M), the higher are the chances of the incumbent monopoly's candidate to win, and also

it is more likely to nominate its own candidate. This effect comes from two sources: First, the higher is M , the more rents the monopoly loses once the market becomes competitive, and this allows it to keep more of its own voters. Second, with higher M , the gain for each of the potential entrants diminishes, and thus its employees are less likely to oppose the businessman-candidate. If $N_1 = N_2 = \dots = N_M$, then the equation 4.2 reduces to

$$\frac{1}{2} + \phi \frac{a^2}{b} N_1 \left[\frac{1}{4} - \frac{M}{(M+1)^2} \right].$$

Since $\frac{1}{4} > \frac{M}{(M+1)^2}$ for all $M \geq 2$, we know that the monopoly is more likely to win than the opponent, and the lower is the demand elasticity in the market, the higher are the monopoly candidate's chances to win. They also increase with h , the importance of money in elections, and γ , the ex-ante dispersion of voters' ideological preferences. These results remain true if $N_1 \geq \frac{1}{M-1} \sum_{j=2}^M N_j$, which might explain why large companies are more likely to be sustained as monopolies.

The intuition described above may also be applied to the ex-post game: of course, a monopoly is willing to pay more in bribes to sustain its position than are potential entrants for a competitive market. However, in the ex-post game, a professional politician may have other incentives to prefer a competitive market to a monopolistic. Competitive markets provide many benefits to consumers, i.e. voters, such as lower prices and higher wages. If $g(s^1) = 0$, and $g(s^2) > 0$, then the monopoly might be unable to overbid potential entrants ex-post (if $\frac{a^2}{4b} < \frac{a^2}{b(M+1)^2}(M-1) + g(s^2)$), while nominating a businessman allows it to

circumvent this problem. The following proposition summarizes the above discussion.

Proposition 5. *Suppose that a professional politician, if elected to office, prefers a competitive market over sustaining a monopoly. In the election campaign, the incumbent monopoly is more likely to support a businessman-candidate, the more competitive is the market if competition is allowed, the higher is the elasticity of demand for the product, the higher is the monopoly's employment, and the more important is money in the elections.*

5. Businessman Candidates in Postcommunist Russia

The model presented above suggests that businessman candidates should be more prevalent, the greater the commitment problem for professional politicians, and the greater the competition for rents among competing firms. Both conditions are more likely to be met in postcommunist countries, where political parties are weak, politicians' time horizons are short, and competition for rents is intense.

5.1. An Overview

Turovsky (2002) notes that gubernatorial campaigns of 1997-2002 in Russia have witnessed the ever-increasing involvement of large firms in local politics.⁶ Vyasheslav Shtyrev, the

⁶A somewhat different phenomenon is that many representatives of large Moscow (not local) corporations have tried, often unsuccessfully, to become regional governors. Perhaps the most notable case of a successful campaign of this type was the election of Roman Abramovich, a major shareholder of the oil company *Sibneft* and aluminum company *RusAl*, to the governorship of Chukotka. In terms of our model, such outside businesses may have a very large stake in the outcome of local elections, but a smaller local electoral base.

president of diamond producer Alrosa, the only large company in Yakutia, was easily elected governor in 2000. In Tyumenskaya oblast, there was a fight between several oil and natural gas companies. TNK, Tyumenskaya Neftyanaya Komapniya, supported the incumbent governor, Leonid Roketsky, who was also TNK's Chairman. His opponent, Sergei Sobyenin, was supported by Sibneft, Transneft, and Surgutneftegaz. In Evenkiya, the main opponent of Boris Zolotarev, a vice-president of YUKOS oil company, was supported by another major oil company, Slavneft. Apparently, it was the Evenk oil fields contested by both companies that were at stake. But perhaps the most publicized example of the phenomenon we describe in this paper took place in Krasnoyarskii Krai.

5.2. Krasnoyarskii Krai

Krasnoyarskii Krai is one of the largest Russian regions, both by area and by amount of natural resources (though only moderately sized in terms of population). The 2002 gubernatorial election was a special election held to replace the late General Lebed, who was elected governor in 1998 and was killed in a helicopter crash in early 2002. Though the degree of dissatisfaction with Lebed in the Krai was high, and all of the major contenders had already signaled their desire to compete with the incumbent governor in regular elections scheduled for 2003, the political landscape would have been considerably different had Lebed not died prior to the election. For our analysis, it is important to note that both of the two major contenders were unprepared at the start of campaign, with the rating for Alexander Khlopinin,

who was ultimately elected governor, hovering around 4 percent.⁷

There are two main economic actors in Krasnoyarskii Krai.

- Norilsk Nickel is the world's largest producer of non-ferrous metallurgy. Further, the company owns or controls a large number of regional enterprises not connected to its core business. Taxes paid by the company comprise, by various estimates, 50 to 75 percent of total revenues of the regional budget. Norilsk Nickel is the chief asset in the Interros holding company, a closely held corporation with majority shares owned by two individuals, Vladimir Potanin and Mikhail Prokhorov.
- Russian Aluminium (RusAl) is the world's second largest producer of aluminium and related materials. The group includes Krasnoyarsk Aluminium Factory, Achinsk Alumina Factory, and Krasnoyarsk Hydro Plant (electric power accounts for about 30 percent of aluminium production costs).

The stakes for both large companies, Norilsk Nickel and Russian Aluminium, were high. First, the winner could expect to pay less taxes to the federal and regional budgets. Second, the winner would have access to cheap energy (which is crucially important for both businesses, though more so to RusAl, due to the nature of aluminum production), since regional energy companies are controlled by the regional government. Thus, competition for rents

⁷Yorke (2003) and Ivanov (2002) describe the recent political history of Krasnoyarskii Krai, and Petrov (2000) analyzes the 1996 gubernatorial campaign. Krasnikov (2002) is a major source on the 2002 gubernatorial elections. We conducted interviews with managers and media strategists of both the Uss and Khloponin campaigns, and with major political figures in Krasnoyarskii Krai.

was intense.

The first major candidate, Alexander Khloponin, had previously served as Norilsk Nickel's general director, and is quite possibly the third-largest shareholder of Norilsk Nickel. Khloponin's start in politics came when he was elected governor of Taimyr, a semi-autonomous subunit of Krasnoyarskii Krai dominated by Norilsk Nickel and related businesses. Consistent with our model's emphasis on the opportunity cost of delegating a key manager to politics, Khloponin's departure from top management appears to have had a real cost for the owners of the company. The search for an effective and reliable replacement for Khloponin ultimately resulted in top shareholder Mikhail Prokhorov's being named general director of Norilsk Nickel, a major diversion from other activities within the Interros empire.

Alexander Uss, Khloponin's main opponent, is a university professor-turned-politician who was the speaker of the regional parliament at the time of the campaign. During the campaign, he was supported by most of the large enterprises in Krasnoyarskii Krai, with the exception of Norilsk Nickel. In particular, Russian Aluminium was a major financial force behind Uss. However, people close to the Uss campaign complained that although Russian Aluminium was the major donor of the Uss campaign, the amount of support was considerably smaller than the budget provided by Norilsk Nickel to its candidate. Consonant with our basic argument, these sources cited RusAl's fear that Uss would not keep his promises once elected governor. Probably for the same reason, Russian Aluminium supported a number of other candidates (but not Khloponin) in the campaign, though ultimately gave

the lion's share of its support to Uss. Krasnikov (2002) also notes that Uss's supporters suffered from a coordination problem in raising campaign funds – obviously not an issue for Norilsk Nickel, which essentially supported Khloponin on its own.

In the end, only Norilsk Nickel had a “businessman candidate” in the election. Why did RusAl not follow a similar strategy of delegating a high-profile manager to the election campaign? (Other regional elections in Russia clearly demonstrated the ineffectiveness of endorsing a candidate with only a mid-level position in the company. One explanation for this phenomenon might be that the equilibrium level of support to a mid-level candidate is much lower than that for a top manager, as the latter's interests are more aligned with those of the company.) The short answer seems to be that they simply didn't have a sufficiently attractive candidate at hand. According to a high-ranking official in Krasnoyarskii Krai with whom we spoke, RusAl considered two former top managers of the company, but discovered through opinion polling that neither was a viable candidate. In contrast, Norilsk Nickel had been grooming Khloponin for high public office since his election as governor in the company's “pocket province” of Taimyr.

There were two rounds of voting (a second round necessary if none of the candidates received more than 50 percent of the total vote). In the first round, Khloponin received 25.2 percent of the vote (only 12.4 percent in the city of Krasnoyarsk), while Uss received 27.6 percent of the vote (more than 40 percent in the city of Krasnoyarsk). The third and the fourth candidates got 21.4 and 13.4 percent, respectively. In the second round, Khloponin

defeated Uss by 48.1 to 41.8 percent of votes. (Voters in Russia are allowed to vote “against all.”) In Norilsk, the home town of Norilsk Nickel, Khloponin received 84.4 percent (with a 42.6 percent turnout rate, less than the average turnout of 47.2 percent) in the first round, and 91.9 percent (with 55 percent turnout compared to 46.8 percent average turnout) in the second round.

6. Conclusion

This paper has focused on the incentives of businesses to run owners and managers for public office in weakly institutionalized environments. In so doing, it has modeled electoral competition as a first-past-the-post contest, the approach generally taken in the literature on special-interest politics. But businessman candidates arise in other electoral settings as well, as evidenced by the overwhelming presence of business owners and managers on party lists in Russia’s 2003 Duma elections.⁸ Thus, the analysis in this paper is only partial. A more complete exploration of the phenomenon addressed here would consider the role of alternative electoral systems, including proportional-representation voting, on the emergence of businessman candidates.

More generally, it is our impression that the ways in which special interests exert influence over the political process have been catalogued much more extensively in advanced

⁸By one estimate, 20 percent of the candidates on the party lists of five major parties were linked directly to big or medium-sized business. “Big Business Will Have Big Voice in Duma,” *Moscow Times*, November 13, 2003.

democratic states than in new or chronically weak democracies. That is unsurprising, but also ultimately unsatisfying. Thus, in addition to any particular insights offered by the argument presented above, this paper can be read as a step towards a more complete understanding of special-interest politics, one that is sensitive to differences in the underlying institutional environment.

7. Appendix - Proof of Proposition 1

Proof. Recall that we have assumed, without loss of generality, that $U_1(S^1) \geq U_2(S^2)$. As the incentive to nominate a businessman candidate may be different for the “big” firm than for the “small” firm (where size refers to gross utility from policy, not necessarily to employment), we must substitute the utilities from the lobbying game into (3.8) and (3.9) separately. In either case, we will find the value of the expression both when the other business nominates a businessman candidate, and when the other business supports a professional politician.

Focus first on choice of candidate for business 1 when business 2 is supporting a professional politician. We are interested in the condition:

$$\begin{aligned} & \left[\frac{1}{2} + \phi \sum_{J=1}^2 [V_J(k_1 = b) - V_J(k_2 = p)] \right] [V_1(k_1 = b) - V_1(k_2 = p)] \geq & (7.1) \\ & \left[\frac{1}{2} + \phi \sum_{J=1}^2 [V_J(k_1 = p) - V_J(k_2 = p)] \right] [V_1(k_1 = p) - V_1(k_2 = p)] + C \end{aligned}$$

Substituting in utilities from the lobbying game, this becomes:

$$\begin{aligned}
& \left[\frac{1}{2} + \phi [U_1 (S^1) - (U_1 (S^1) - U_2 (S^2)) + 0 - 0] \right] & (7.2) \\
& \cdot [U_1 (S^1) - (U_1 (S^1) - U_2 (S^2))] \geq \\
& \left[\frac{1}{2} + \phi [(U_1 (S^1) - U_2 (S^2)) - (U_1 (S^1) - U_2 (S^2)) + 0 - 0] \right] \\
& \cdot [(U_1 (S^1) - U_2 (S^2)) - (U_1 (S^1) - U_2 (S^2))] + C
\end{aligned}$$

Business 1 receives its favored policy without paying anything, i.e. receives $U_1 (S^1)$, when its businessman candidate wins the election. When a professional politician wins the election (whether that politician is supported by business 1 or business 2), it also receives its favored policy, since it is bigger than business 2. However, it must pay what business 2 would have been willing to pay for its favored policy, so that business 1's utility in this case is $U_1 (S^1) - U_2 (S^2)$. As business 2 is supporting a professional politician and is the smaller of the two businesses, it expects to receive nothing, regardless of who wins and regardless of the choice of candidate by business 1.

Expression (7.2) reduces to:

$$\frac{1}{2} U_2 (S^2) + \phi U_2 (S^2)^2 \geq C \quad (7.3)$$

Similarly, the condition for business 1 to choose $k_1 = b$ given that $k_2 = b$ can be derived as:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_1(S^1) - 2U_2(S^2)] \geq C \quad (7.4)$$

Analogous conditions can be derived for business 2 to choose $k_2 = b$ when $k_1 = p$:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_2(S^2) - U_1(S^1)] \geq C \quad (7.5)$$

and when $k_1 = b$:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [U_2(S^2) - U_1(S^1)] \geq C \quad (7.6)$$

In principle, four equilibria are possible: a) $(k_1 = p, k_2 = p)$, b) $(k_1 = b, k_2 = b)$, c) $(k_1 = b, k_2 = p)$, and d) $(k_1 = p, k_2 = b)$. We can use expressions (7.3) through (7.6) to find the conditions under which a given equilibria exists. Thus, for example, $(k_1 = p, k_2 = p)$ exists when business 1 would choose a professional politician given that business 2 has done the same, i.e. when:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2)^2 \leq C \quad (7.7)$$

Similarly, business 2 will choose $k_2 = p$, given that $k_1 = p$, when:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_2(S^2) - U_1(S^1)] \leq C \quad (7.8)$$

Note that the first of these two constraints is binding, since $U_1(S^1) \geq U_2(S^2)$, $U_2(S^2) \geq 2U_2(S^2) - U_1(S^1)$. Thus, $(k_1 = p, k_2 = p)$ exists as an equilibrium when $\frac{1}{2}U_2(S^2) + \phi U_2(S^2)^2 \leq C$. Analogously, for $(k_1 = b, k_2 = b)$ to be an equilibrium, we must have both:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_1(S^1) - 2U_2(S^2)] \geq C \quad (7.9)$$

and:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [U_2(S^2) - U_1(S^1)] \geq C \quad (7.10)$$

where the second constraint is binding.

An equilibrium with $(k_1 = b, k_2 = p)$ will exist so long as:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2)^2 \geq C \quad (7.11)$$

and:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [U_2(S^2) - U_1(S^1)] \leq C \quad (7.12)$$

Clearly, this equilibrium will not exist for C sufficiently low or high. However, the equilibrium can be supported for C such that:

$$\begin{aligned} \frac{1}{2}U_2(S^2) + \phi U_2(S^2) [U_2(S^2) - U_1(S^1)] \leq C \leq \\ \frac{1}{2}U_2(S^2) + \phi U_2(S^2)^2 \end{aligned} \quad (7.13)$$

As $U_2(S^2) - U_1(S^1) < U_2(S^2)$, there will always be intermediate C such that this condition is satisfied. Finally, for $(k_1 = p, k_2 = b)$ to be an equilibrium we must have:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_1(S^1) - 2U_2(S^2)] \leq C \quad (7.14)$$

and:

$$\frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_2(S^2) - U_1(S^1)] \geq C \quad (7.15)$$

i.e.:

$$\begin{aligned} \frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_1(S^1) - 2U_2(S^2)] \leq C \leq \\ \frac{1}{2}U_2(S^2) + \phi U_2(S^2) [2U_2(S^2) - U_1(S^1)] \end{aligned} \quad (7.16)$$

In contrast to the condition for $(k_1 = b, k_2 = p)$, there may not exist C such that (7.16) is satisfied. There will be such C so long as $2U_1(S^1) - 2U_2(S^2) \leq 2U_2(S^2) - U_1(S^1)$, i.e. so long as $\frac{U_2(S^2)}{U_1(S^1)} \geq \frac{3}{4}$.

Comparing the conditions for all four equilibria produces the statement in Proposition

1. ■

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Figure 1: Existence of Equilibria

