

Tuesday, February 15, 2005. Issue 3106. Page 10.

## When Businessmen Go Governor

By Konstantin Sonin

The first governor to be appointed by President Vladimir Putin was businessman Sergei Darkin, who had been elected governor of Primorye four years ago. The president's decision is understandable. The federal center does not have any extra human resources, and there's no one to replace Darkin. It's also clear why the system suits Darkin: His term would have ended June 25, but now he has the opportunity to extend his time as governor indefinitely. This turn of events provides an excellent excuse to reflect on the question of why businessmen become governors in the first place.

Clearly, Russian businessmen -- and 13 of Russia's governors are major businessmen -- go into politics because they have to. But if their companies need political protection, why don't they simply go and buy it? All they would have to do is pay off a governor or finance a candidate. Yet it seems that not all veniality is created equal. If it were possible to buy a politician once and for all, businessmen would not have had to run for governor, or now push to be appointed. But there is no way to buy someone forever, and that means you have to pay for each and every decision, which costs a lot more as time goes by because the further along the business project is, the more it costs the businessmen to exit. In other words, the politician's bargaining position when naming the price for a political decision becomes increasingly strong as time passes. To avoid the spiraling costs, businessmen become governors.

Nobel Prize winning economist Ronald Coase was the first to explain the "boundaries of the firm" by focusing on the cost of signing and enforcing contracts. If contracts could indeed be signed without expending time and energy, and if these contracts described all possible circumstances and could be enforced without any cost, why would we need firms at all? What would be the difference between producing something inside the firm and contracting for a service or product from outside the firm? A world without transaction costs would not have any production units.

The difficulties related to concluding contracts with politicians determine the "political boundaries of the firm." A businessman has to decide whether to sponsor a politician -- something like buying a product from an outside supplier -- or whether to become governor himself and produce political influence in-house. When the costs of sponsorship and lobbying are too high, businessmen turn into governors. Not surprisingly, these governors come mostly from the natural resource sectors, where business needs political protection most.

Businessmen who have become politicians in order to expand or maintain their business are found in other places besides Russia. They exist everywhere politicians do not cherish their reputations in the eyes of their sponsors or their voters and where politicians cannot make binding campaign promises, such as in Latin America, for instance. In developed democratic countries, this phenomenon is practically a thing of the past. However, interestingly enough, the situation in the United States a century ago was quite different. Railroad barons and other major businessmen became governors and senators.

Thus, there is nothing particularly distressing about these businessmen-cum-governors. Their existence merely indicates how weak Russia's economic institutions are. Once these institutions are up and running, once the judicial system starts functioning properly and voters wake up, everything will wind up in its right place. Businessmen will take care of business, and politicians, politics. Perhaps in a hundred years or so.

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