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# The Flexible Few: Oligarchs and Wealth Defense in Developing Democracies

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**Abstract**

Based on an original large-*N* dataset of individual Ukrainian oligarchs and qualitative evidence, this article tests competing perspectives on the political power of big capital. We find, surprisingly, that neither the assumption of direct power by the oligarchs nor the mobility of oligarchic assets helps tycoons protect their fortunes against shocks. Instead, the indirect strategies of party support and media ownership significantly enhance business wealth. Empirically, we profile postcommunist oligarchs by examining the political and economic activities of 177 oligarchs from 2006 to 2012. Theoretically, we contribute to the literatures on instrumental and structural power of capital, and on the interactions between extreme wealth, rule of law, and democracy. In doing so, we contrast the logic of flexibility, according to which oligarchs benefit from political adaptability and deniability, with the logic of commitment compensation, according to which oligarchs benefit from direct power when the rule of law is weak.

**Keywords**

business and politics, Russia/former Soviet Union, quality of democracy, political economy

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What are the dynamics of plutocratic dominance? Recent landmark studies have delineated the pathologies of global capital accumulation (Piketty, 2014), while theorizing the superiority of financial resources as a form of political power throughout human history (Winters, 2011). Much less systematic attention has been devoted to the supersized *individuals* at the epicenter of these problems: the plutocrats. Yet knowing what types of individuals become superrich and how they protect their fortunes is crucial for the fate of young democracies in the postcommunist world (Hale, 2015; Radnitz, 2010) and beyond (Acemoglu & Robinson, 2006).

Our article makes two overarching contributions. First, descriptively, we revise the orthodox image of the postcommunist oligarchs by examining the full cohort of the wealthiest elite members in Ukraine from 2006 to 2012. Second, we help establish the determinants of oligarchic dominance by testing the impact of individual backgrounds, asset composition, and political strategies on business wealth. We find that executive and legislative offices are surprisingly ineffective: This questions the importance of *direct* rule commonly ascribed to capital in underinstitutionalized settings. We also find little support for the effectiveness of asset mobility. Conversely, the *indirect* strategies of party finance and media ownership significantly boost oligarchic wealth. We theorize our findings as the logic of flexibility: Party support and media ownership offer the oligarchs political adaptability and deniability, crucial advantages that are lost with the direct assumption of power stressed in the literature. Our qualitative evidence contrasts office holding with party support from the oligarchic perspective, while explaining the coevolution of parties and extreme wealth in Ukraine.

## Literature and Critique

Oligarchs or plutocrats are "actors who command . . . massive concentrations of material resources that can be deployed to defend . . . their . . . wealth" (Winters, 2011, p. 6). If oligarchy is the *politics of wealth defense*, as per Winters, then the key question is how can the plutocrats protect their fortunes? Assuming the fundamental dependence of the state on business, for example, for tax revenues and investment, some scholars suggest that active political involvement by business is, in fact, unnecessary (Lindblom, 1977). In this "structural power" perspective, mobile private wealth signals the threat of exit that suffices for political outcomes, such as bank bailouts (Culpepper & Reinke, 2014) or business-friendly tax laws (Winters, 1996), to reflect the preferences of wealth-holders. Yet the considerable involvement of business in politics suggests that business owners themselves consider structural power insufficient.

The instrumental involvement of wealth-holders in politics can be conceptualized along the direct–indirect dimension. *Direct* strategies imply the actual assumption of power through executive or legislative office. Across postcommunist economies as diverse as Bulgaria, Russia, Kyrgyzstan, and China, scholars have argued that direct power "[assures] asymmetrical force and influence . . . [for] business leaders" (Schoenman, 2014, p. 8), provides "real 'returns to office'" (Truex, 2014, p. 250), and "[is] useful in the struggle for property" (Barnes, 2006, p. 134). The postcommunist state *per se* is conceptualized as an "investment market" for the office-buying wealth-holders:

> To make the really big profits, or to protect . . . property . . ., it is . . . not sufficient to rely on buying protection from state officials . . . [Instead], the goal is . . . to be the one in the position to influence policies and supervise how protection, privileges, and other goods are sold. (Engvall, 2015, p. 34)

Capital owners can also protect their wealth through *indirect* strategies, that is, without assuming state office (Markus, 2007, 2008). Supporting *political parties* can help the tycoons protect their wealth without collective action. The literature on party finance by business mostly addresses the developed OECD democracies (McMenamin, 2012). Although such finance is central to the politics of developing democracies—being a prime determinant of corruption levels (Yadav, 2011) but also of opposition capacity (Arriola, 2013)—systematic investigations of party–business relationships in postcommunism are rare and focused on the European Union (EU) members such as Poland, Hungary, or Bulgaria (Schoenman, 2014; Stark & Vedres, 2012). *Media ownership* is another crucial indirect strategy, since media coverage is a key asset in political struggles. In the case of the Russian oligarchs, for example, media ownership both helped some oligarchs rise under Yeltsin (Johnson, 1997) and propelled their fall under Putin.

What do we know about the relative efficacy of direct versus indirect strategies of wealth defense? The literature on oligarchy treats *direct rule as the winning strategy in environments lacking the rule of law*:

> . . . Where property is reliably defended . . . through institutions . . ., oligarchs have no compelling need to be . . . engaged directly in political roles . . . However, their political involvement becomes more direct again when external actors or institutions fail to defend property reliably. (Winters, 2011, p. 7)

Of course, the predicament faced by postcommunist capitalists is precisely the dearth of institutions that would restrain the politicians who have immediate access to coercion: What drives the oligarchs is the *lack of credible commitment by the state* (Junisbai, 2012; Radnitz, 2010). Assuming the impossibility of *restraining* the powerful without strong institutions, the literature highlights wealth-holders who *become* the powerful themselves by holding state office (Gehlbach, Sonin, & Zhuravskaya, 2010; Truex, 2014).

This logic of *commitment compensation*—suggesting the superiority of direct rule over indirect strategies in lawless contexts—offers an important insight. Yet systems that are lawless but politically *competitive* also generate a fascinating puzzle: while the underinstitutionalization of the environment prompts the superrich to engage in direct rule, its competitiveness implies a high-stakes unpredictability should their direct rule end due to the ascent of a rival. In a system where both considerations are central to the oligarchs' calculus, which one carries the day?

We advance the literature on material power on three fronts. First, there are no empirical studies known to us that test various oligarchic strategies against each other in terms of their effectiveness at wealth defense. Theoretically, the problem is exacerbated by umbrella concepts such as "state capture" which often refer to any form of illegitimate influence by wealth-holders (e.g., Hellman, 1998). Yet general corruption cannot explain why some oligarchs succeed more than others: In a country such as Ukraine, all superwealthy business owners have benefitted from corruption at some point. Meanwhile, many developing democracies combine systemic characteristics that, in theory, could make *any* of the aforementioned oligarchic strategies effective. Where the rule of law is absent, the logic of commitment compensation suggests that oligarchs who rule directly should defend their wealth more effectively. In struggling economies, policymakers should be more sensitive to the demands of mobile capital, suggesting the efficacy of structural power. In competitive political systems, indirect strategies may also help the superrich protect their wealth. We test these hypotheses in the Ukrainian context.

Second, many studies discuss the political activity of "firms," "business," or "capital," implicitly combining the richest tycoons with much smaller owners (Schmitter, 2010). Sector-based studies may refer to "industry" interests without sufficient size differentiation (Cammett, 2007). However, the oligarchs differ dramatically from the smaller business owners. The menu of options that the superrich possess in protecting—or expanding—their property is far wider than that of average capitalists. Our analysis of the wealthiest members of Ukrainian business community underscores the need for such distinctions.

Third, to the extent scholars do focus on oligarchic power proper, too few works systematically examine *individual* plutocrats. While empirical challenges are indeed daunting, there is also a theoretical reason for this lack of disaggregation. The literature stresses *external threats* to oligarchic wealth that may be top-down or bottom-up in nature: The dictators or the demos threaten the oligarchs with authoritarian expropriation or populist redistribution (Acemoglu & Robinson, 2006; Razo, 2008). Such emphasis on threats from actors who feature coercive resources or great numbers but lack extreme wealth can lead to the implicit treatment of the plutocrats *as an interest group*. However, intraoligarchic competition is the norm across historical and modern plutocracies (North, Wallis, & Weingast, 2009; Winters, 2011), and deserves a deeper analysis: The winner's worst enemy is often another winner. The lack of systematic attention to individual oligarchs has also led to theoretical extrapolations based on a small number of (usually sensationalistic) oligarchs. For the postcommunist plutocrats, such extrapolation is based on the best-known cases of "privatization oligarchs" or "red directors," as in the seminal studies by Hoff and Stiglitz (2004) or Johnston (2005). By systematically examining and theorizing wealth defense strategies at the individual level, we push these accounts of oligarchic power a step further.

## Ukrainian Oligarchs as a Research Subject

Throughout their existence, Ukrainian oligarchs have faced intense political threats to their wealth. First, *administrative regulation* at times curtailed the rent-seeking opportunities of the plutocrats. Energy reforms of 2000, for example, shut down predatory schemes related to the nonpayment of taxes, resource theft, and individual subsidies in the gas, electricity, and oil sectors. Second, *democratic pressures* cast a shadow over the oligarchs during political openings. The 2004 Orange Revolution and the 2014 overthrow of Yanukovych, for example, ushered in a period of populist policymaking focused on antioligarchic justice. Third, the danger of *authoritarian confiscation* emerged after Yanukovych's assumption of the presidency in 2010. Within 2 years, Yanukovych's son Oleksandr, a dentist, was presiding over a business empire valued at US$200 million while some oligarchs were pressed to surrender their equity to "the Family." Fourth, and crucially, *intraoligarchic expropriation* has been the most persistent threat since the early 2000s. In the ongoing raiding wars, oligarchs have used their "administrative resources" in the state apparatus to appropriate the assets of their rivals: Ukraine has seen 3,000 raiding attacks per year conducted by 30 to 50 raiding groups, according to one estimate, with "major oligarchs . . . among the most effective raiders" (Rojansky, 2014, p. 424).

The extent of threats to oligarchic wealth in Ukraine implies that its defense is central to the plutocrats' calculations. While the superrich are also driven by political, social, and status-related goals, these goals typically depend on successful wealth defense. Furthermore, to make it into the first-generation superrich in a dangerous and corrupt environment, the Ukrainian oligarchs underwent an intense selection process: No businessman would have made it into these rarefied ranks without a ruthless focus on wealth maximization. Even the ostensibly public-spirited oligarchs, such as the current president Poroshenko (once a vocal supporter of the Orange Revolution), display a striking tenacity in safeguarding their personal wealth.[1]

Meanwhile, the intensity of intraoligarchic rivalry is important in that it *precludes collective action* by the oligarchs against the top-down and bottom-up threats. The predatory asset redistribution all but destroyed Ukrainian elite networks, which were weak to begin with (Way, 2005).

Overall, given its pervasive threats to oligarchic wealth and its lawless but competitive environment typical of many developing democracies, Ukraine is ideal for analyzing the politics of wealth defense. Moreover, the absence of inherited wealth or strong oligarchic networks in Ukraine allows for a cleaner test of the effectiveness of *individual* strategies. Finally, the unpredictability of Ukrainian politics (Markus, 2016) renders the success of strategies *ex ante unknown* to the oligarchs themselves: Convergence on dominant strategies (which may shift) is slow, providing great variation.

## Data Analysis

To systematically understand the origins, manifestations, and effectiveness of material power, we have assembled a database of Ukrainian oligarchs tracking their business wealth, political involvement, career trajectory, wealth origin, sectoral diversification, the timing of wealth creation, and so on. Our approach follows the only available large-*N* study of postcommunist individual plutocrats, namely, Braguinsky's (2009) analysis of the first cohort of Russian Yeltsin-era oligarchs. We take an expert-compiled list of oligarchs which includes their estimated annual wealth as our point of departure. We then complete it with carefully triangulated data on other variables.

A different approach is exemplified by works focusing on *firms* rather than individuals (Earle & Gehlbach, 2015; Guriev & Rachinsky, 2005). While the large-*N* official company data avoid the problem of too few cases, conclusions about oligarchs based on a study of enterprises are incomplete at best. Firms do not sit in parliament or assume government jobs; individuals do.

Our list of oligarchs and their wealth is taken from the magazine *Fokus*. A discussion of this source and its methodology can be found in the online appendix. Our period of examination is from 2006, the first year for which wealth data are available, to 2012.[2] We take business wealth for 100 richest individuals from *Fokus* for each year. The final dataset includes 177 unique plutocrats.

For the coding of variables beyond business wealth, we rely on the following media, political, and financial sources: (a) media: databases EastView and Integrum providing combined access to 10,000+ sources in Ukraine and Russia, including print and Internet media as well as transcripts of TV and radio programming; we supplement this bird's-eye search with directly accessed "relevant and reliable" media sources reporting on business and politics in Ukraine; (b) political: databases maintained by the Ukrainian Rada, electoral commission, and political parties; and (c) financial: databases of equity listings maintained by Ukrainian and foreign stock exchanges. Table A1 in the online appendix provides more details. Where pertinent, we also consider fieldwork interviews with Ukrainian experts.[3]

## *Business Wealth*

Taken together, 177 Ukrainian oligarchs controlled over US$85.9 billion in business wealth, or circa 60% of the Ukrainian GDP (both averaged through the examined time period). How did oligarchic business wealth change between 2006 and 2012? Figure 1 presents the distribution of business wealth on an annual basis. Fifteen "super-oligarchs" were dropped from the boxplots (but not from the rest of the analysis) as outliers in at least 1 year; among them, the top five plutocrats[4] are outliers in each single year.

We also conduct a detailed calculation of how the oligarchs' total business wealth is diversified across sectors, taking into account the three largest sectors in the holdings of each individual oligarch, each year. Figure 2 presents the results of our analysis for the midpoint of the examined period. The pie slices represent the shares of sectors across which the *total* oligarchic business wealth in Ukraine was invested in 2009.

## *Wealth Origin*

Based on a detailed reading of plutocrats' biographies and the history of their investments, we link individual business fortunes to their origins. Our question here is what made a particular person superrich *initially*? We define "superrich" roughly as being among the 200 richest persons in the country.[5]

Our analysis shows that the origins of many oligarchic fortunes can be traced to their participation in privatization, or to their careers as red directors,[6] as per the regional literature. However, these categories are not exhaustive. We find two other widespread origins of oligarchic business wealth that have not received proper attention.

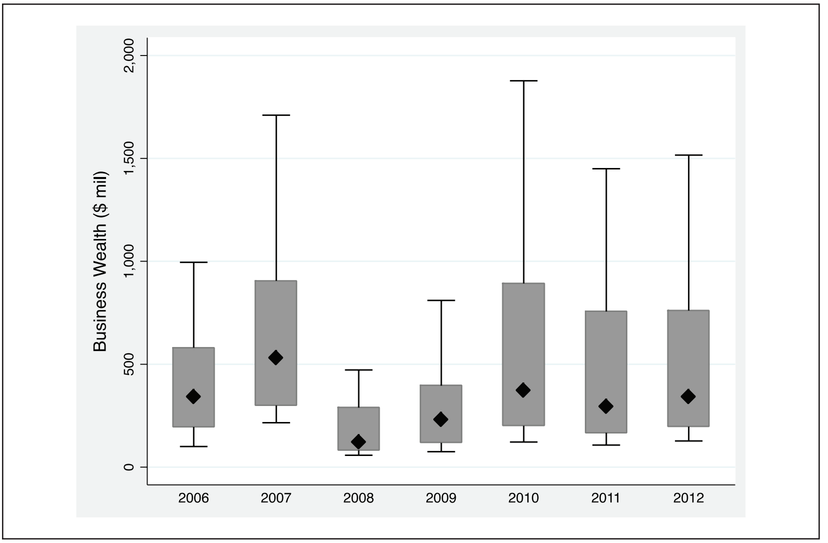


**Figure 1.** Distribution of business wealth, 2006-2012.
Shaded boxes represent the 25th and 75th percentiles, and whiskers extend to the largest and smallest values that are not outliers; diamonds inside boxes indicate median values.

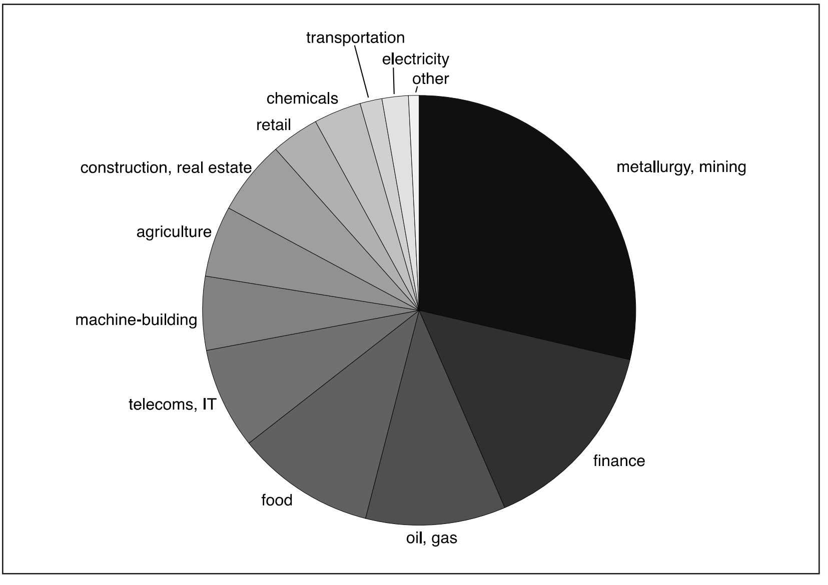


**Figure 2.** Sectoral distribution of total oligarchic business wealth in 2009.

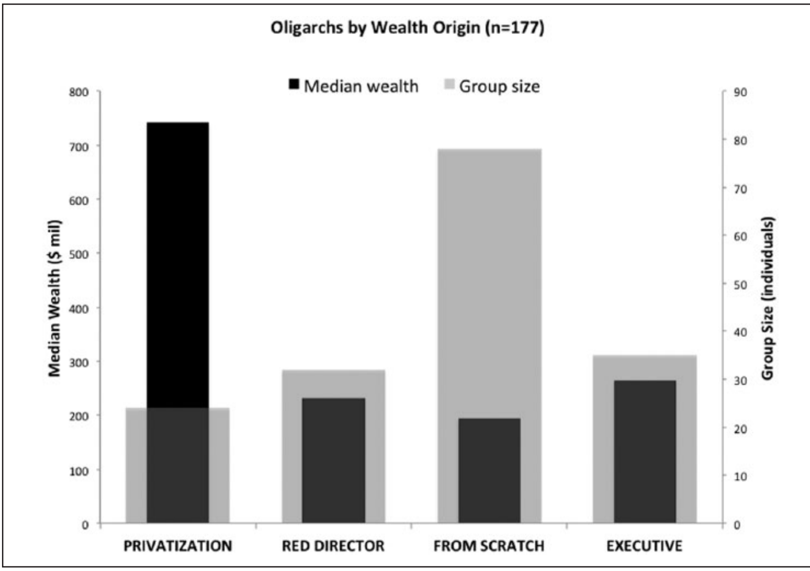


**Figure 3.** Median business wealth and group size by wealth origin.

The third origin we identify is that of a corporate executive. This cohort became superrich in a way typical of many Western business careers, by serving as high-level managers, often CEOs, in large corporations. The fourth and most surprising origin is superwealthy "from scratch." This group of oligarchs did not derive their initial fortune in any of the three ways mentioned previously. Instead, they made it into the ranks of the superrich through a multitude of entrepreneurial business ventures. As a group, these oligarchs are more likely to have received a technical education just before the transition, to have failed at multiple business ventures before becoming superwealthy, and to have clashed with the more traditional oligarchs.

Figure 3 presents 177 oligarchs by their wealth origin. For each of the four origins (privatization, red director, from scratch, and executive), the size of the respective origin cohort is shown, and the median business wealth of the oligarchs who are members of that cohort.

Several insights stand out. To begin, our understanding of the postcommunist oligarchs is outdated: Ukraine is moving beyond its Soviet-era roots as far as big capital is concerned. While 14% of the 177 oligarchs made their fortunes during privatization and 19% as red directors, 21% became superrich as corporate executives, and 46% made their wealth from scratch. Two thirds of the Ukrainian oligarchs, in other words, made their hryvnias in relatively modern ways. At the same time, "traditional" ways were clearly more lucrative. Quite starkly, the median wealth of a privatization-fueled oligarch exceeds US$700 million, whereas that of a self-starter falls below US$200 million.

## *Direct Strategies*

To what extent is the material power of the plutocrats connected to state office? We approximate this issue empirically by conducting another process-tracing of the oligarchs' careers. In particular, we examine how the timing of an oligarch's initial fortune relates *sequentially* to his formal government job, typically in the executive branch.

Fifty-eight percent of oligarchs have held a government position in their careers. For some of these oligarchs, the *creation of their initial fortune*[7] *preceded their state job*: We refer to these oligarchs as "state captors." Others had held a *state office before becoming superrich*: We call these oligarchs "business captors." Both types of captors are examples of direct rule.

We find that state captors and business captors are affiliated with different parts of the state. State captors have typically occupied the leading positions in the ministries charged with the regulation of the economy and in the Central Bank (National Bank of Ukraine), whereas most business captors have come from the Interior Ministry, the Soviet-era nomenklatura, and the *oblast*-level regional administrations, particularly from the Donbass region.

Conceptually, the relative timing of enrichment and state affiliation indicates an understudied contrast among the direct strategies. Consider the difference between president Poroshenko and president Putin—or, for that matter, between the former mayor of New York, Michael Bloomberg, and the former governor of Illinois, Rod Blagojevich. While Poroshenko and Bloomberg had both been billionaires before entering politics, Putin and Blagojevich assumed their respective executive offices as middle-class individuals who later engaged the coercive resources at their disposal to amass personal wealth. In Putin's case, the strategy has led to a secret fortune estimated at US$40 to US$70 billion, and in Blagojevich's case to a prison term. Although state captors are globally ubiquitous, a major difference between the Western and the developing worlds is that business captors find the developing world much easier to operate in. A minister who becomes one of the richest individuals in a country after assuming office is a developing-world staple, yet relatively rare in the OECD countries. Some of the better known Ukrainian business captors include Viktor Medvedchuk, Valeriy Khoroshkovsky, Serhiy Tihipko, and Pavlo Lazarenko.

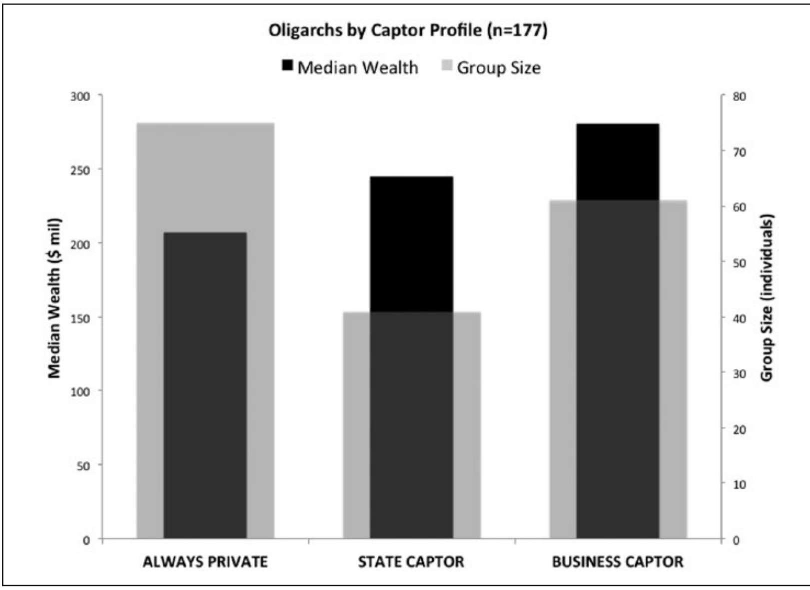


**Figure 4.** Median business wealth and group size by captor profile.

Figure 4 presents group size and median wealth for the cohorts of state captors, business captors, and "always private" (i.e., state-unaffiliated) oligarchs in Ukraine.

The largest group among the three is actually "always private," followed by business captors and state captors. The ranking is different when it comes to business wealth: business captors lead, followed by state captors and the state-unaffiliated.

For each oligarch, we also code presence in the Verkhovna Rada of Ukraine on annual basis. Roughly a quarter of all oligarchs—42 out of 177—have served as a parliament deputy for at least 1 year during the covered period. Between 2006 and 2012, Ukraine had three Rada elections: in 2006, 2007, and 2012. In 2002, an out-of-sample election year which we nevertheless examined, 36% of the oligarchs in our 2006 list had been elected to the Rada. Remarkably, the proportion of oligarchs in the Rada *dropped by almost a third following the 2004 Orange Revolution*, to 25% in 2006.[8]

## Indirect Strategies

In addition to holding formal executive or legislative offices, oligarchs can bankroll political parties. Most party financing is not reported to the electoral commission, a common problem in most countries, including the OECD space (Schoenman & McMenamin, 2007, p. 161). Oligarchic financing of parties as such is taken for granted in Ukraine, due to the absence of monetary alternatives and expensive campaigns.[9] Following Faccio (2006) and McMenamin (2012), we rely on media sources. Fortunately, investigative journalism thrives in Ukraine, and in-depth reports on the oligarchs' connections to parties are common. Even during the 2010-2014 authoritarian turn, for example, in-depth reports on the oligarchic financing of the ruling Party of Regions were frequent.

We code "party support" as present when there are at least two reports from different reliable media sources, indicating that an oligarch is financing one or multiple parties. We exclude a media source from consideration if it is owned by an oligarch in our sample. Our approach is more likely to capture large financial contributions, as small donations are less likely to be uncovered or reported. Importantly, our proxy does not bias results because the theoretical question at stake implies that a dichotomous measure of party support capturing *large* donations (as does our proxy) is more appropriate than a measure capturing *any* donations, because trivial donations should not be expected to aid oligarchic wealth defense. Many more oligarchs—namely, 54%—support political parties than sit in the Rada.

Finally, we code the ownership of major media assets by an oligarch. Sixteen percent of Ukrainian oligarchs (29 out of 177) are major media owners: 14 oligarchs own national TV stations, 7 own regional TV stations, and 15 own national newspapers (these categories are nonexclusive). We did not code the ownership of regional newspapers given their limited audience and impact (Ryabinska, 2011).

Direct and indirect strategies can be pursued in tandem by the oligarchs. Indeed, among 177 oligarchs, the largest number—80—pursue *both* direct and indirect strategies, 22 pursue *direct* strategies only, 20 pursue *indirect* strategies only, and 55 do *neither*.

## *Determinants of Business Wealth*

Our dataset is an unbalanced panel, with partly nonidentical individuals present across years. A problem arises due to the nonrandom nature of missingness (MNAR), because the rankings contain only the richest persons for each year. A simple focus on the oligarchs present in all years would reduce the number of individuals from 177 to 49, while only partly resolving the MNAR bias. Instead, we begin by transforming the panel data into a "wide" dataset with 177 observations, one for each oligarch; variables that can assume different values across years are averaged.[10] We then return to the "long" dataset and analyze complete cases through inverse probability weighting. Finally, we fit models with fixed effects and mixed effects to the full panel. In addition to MNAR, endogeneity is a concern which is discussed in a separate section below.

The main dependent variables, *Level* and *Resilience*, relate to the outcomes of oligarchs' efforts at attaining and maintaining superior wealth. *Level* is the log of business wealth in the most recent year for which data on a given oligarch are available. *Resilience* is the annual percentage change in a given oligarch's business wealth.[11] As *Resilience* only makes sense for oligarchs who are present during at least 2 years, we drop oligarchs who are present for a single year from our data for analyses involving this dependent variable.

Our independent variables cover political strategies, background characteristics, and structural power. *BusinessCaptor* and *StateCaptor* dummies represent the respective oligarch cohorts ("always private" is the reference group). *Parliament*, *Party*, and *Media* are dummies that proxy political involvement, as per the previous discussion (see Note 10).

The dummies *Privatization*, *RedDirector*, and *FromScratch* indicate the origin of the plutocrats' initial fortune ("corporate executive" is the reference group). Another important background characteristic concerns the 2004 Orange Revolution that put an end to Kuchma's oligarchic authoritarianism. *KuchmaOligarch* equals 1 for oligarchs who had created their initial fortune *before* the Orange Revolution, and zero for those who became superrich after 2004. Kuchma oligarchs comprise 64% of our sample. We also control for age.

To help control for broad economic trends and to provide a rough proxy for structural power, we add dummies for sectors where oligarchic wealth is invested. Sector dummies account for macroeconomic trends affecting the oligarchs with sectorally similar investment portfolios. Furthermore, structural power is conferred on the owners of assets that are more mobile, or assets in sectors that tie oligarchic business wealth more closely to public welfare (through employment or taxation). *Sector* is a categorical variable describing the largest sector (among those introduced in Figure 2) in the oligarch's business assets.

Table 1 presents our regression analysis. (Summary statistics on all variables are in Table A2 in the online appendix.) Proxies for direct and indirect strategies are boldfaced.

Models (1) to (3) present cross-sectional results. In Model (1), with *Level* as the dependent variable, *Privatization* is highly significant, whereas *StateCaptor*, *BusinessCaptor*, *Parliament*, and *Party* are insignificant. *Media* is significant at the .05 level.

In Model (2), we estimate the same equation, except the dependent variable, which is now *Resilience*, and the explicit control for the level of wealth

**Table 1.** Determinants of Wealth Level and Wealth Resilience.

| | | | | Panel | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cross-section | | | Inverse probability weighted | | Mixed effects | | Fixed effects | |
| | (1) Level | (2) Resilience | (3) Period | (4) Level | (5) Resilience | (6) Level | (7) Resilience | (8) Level | (9) Resilience |
| Privatization | 0.89*** | 0.34 | 1.15 | 0.40*** | 21.32 | 0.79*** | 23.46* | | |
| | (0.26) | (11.06) | (0.70) | (0.15) | (16.03) | (0.20) | (12.76) | | |
| RedDirector | −0.00 | −10.18 | 0.40 | −0.31* | −13.74 | 0.18 | 10.99 | | |
| | (0.99) | (13.57) | (0.85) | (0.19) | (17.54) | (0.24) | (15.68) | | |
| FromScratch | −0.26 | −18.05* | −0.69 | 0.29 | 7.16 | −0.07 | −7.07 | | |
| | (0.22) | (9.71) | (0.60) | (0.21) | (20.25) | (0.16) | (12.83) | | |
| KuchmaOligarch | 0.18 | −8.42 | 0.97** | 0.07 | 16.37 | 0.23* | 5.75 (9.26) | | |
| | (0.16) | (7.17) | (0.45) | (0.20) | (19.66) | (0.13) | | | |
| **StateCaptor** | **−0.10** | **−14.50** | **−0.51** | **−0.04** | **−16.87** | **0.15** | **−19.68*** | | |
| | **(0.22)** | **(9.34)** | **(0.58)** | **(0.18)** | **(17.07)** | **(0.15)** | **(10.49)** | | |
| **BusinessCaptor** | **−0.25** | **−20.88**** | **−0.25** | **0.06** | **−22.37** | **0.03** | **−20.42*** | | |
| | **(0.22)** | **(9.90)** | **(0.60)** | **(0.21)** | **(22.26)** | **(0.16)** | **(11.11)** | | |
| **Parliament** | **−0.04** | **−9.47** | **−0.26** | **−0.14** | **−7.49** | **−0.01** | **−14.16** | **0.10** | **−5.95** |
| | **(0.23)** | **(9.86)** | **(0.63)** | **(0.17)** | **(16.63)** | **(0.12)** | **(10.93)** | **(0.12)** | **(12.56)** |
| **Party** | **0.27** | **28.76***** | **1.03*** | **0.32**** | **27.24*** | **0.01** | **31.44***** | **−0.02** | **18.96*** |
| | **(0.21)** | **(9.08)** | **(0.56)** | **(0.15)** | **(16.15)** | **(0.08)** | **(9.50)** | **(0.09)** | **(11.03)** |
| **Media** | **0.43**** | **5.88** | **1.23**** | **0.44***** | **17.34** | **0.47***** | **9.20** | | |
| | **(0.20)** | **(8.73)** | **(0.54)** | **(0.16)** | **(16.06)** | **(0.15)** | **(9.35)** | | |

*(continued)*

**Table 1. (continued)**

| | Cross-section | | | Panel | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Inverse probability weighted | | Mixed effects | | Fixed effects | |
| | (1) Level | (2) Resilience | (3) Period | (4) Level | (5) Resilience | (6) Level | (7) Resilience | (8) Level | (9) Resilience |
| Age | −0.00 (0.01) | 0.44 (0.50) | 0.02 (0.03) | 0.02 (0.01) | 1.15 (1.06) | −0.01 (0.01) | −0.38 (0.65) | 0.00 (0.01) | −0.47 (0.65) |
| LevelLagged | | −12.02*** (4.03) | | | −51.37*** (7.36) | | −23.46*** (4.58) | | −36.68*** (7.35) |
| Constant | 5.59*** (0.53) | 75.50** (31.64) | 1.77 (1.44) | 3.92*** (0.53) | 197.51*** (65.50) | 5.52*** (0.39) | 211.56*** (38.43) | 5.68*** (0.29) | 294.51*** (50.37) |
| Observations | 156 | 118 | 156 | 329 | 282 | 593 | 440 | 603 | 442 |
| Oligarchs | 156 | 118 | 156 | 47 | 41 | 156 | 114 | 164 | 115 |
| $p > F$ | .0000 | .0023 | .0028 | .0000 | .0000 | | | | |
| $p > \chi^2$ | | | | | | .0000 | .0000 | .0000 | .0000 |
| Adjusted $R^2$ | .39 | .36 | .27 | .22 | .15 | | | | |
| Rho | | | | | | | | .80 | .32 |
| Dummy variables | Sector | Sector | Sector | Year Sector | Year Sector | Year Sector | Year Sector | Individual Year | Individual Year |

(1) to (3): OLS model, (4) and (5): OLS model with year fixed effects and weights reflecting the inverse probability of having complete data for individual oligarchs, (6) and (7): hierarchical linear mixed model (two level, year fixed effects), and (8) and (9): OLS model with individual and year fixed effects. Robust standard errors in parentheses. *Level* is the log of business wealth (in the most recent period in Model (1) and in the current period in all other models). *Period* is the number of years a given oligarch appears in the data. *Resilience* is the percentage change in business wealth (averaged across years in Model (2), and year-on-year in all other models). OLS = ordinary least squares. Key explanatory variables appear in bold.
*$p < .10$. **$p < .05$. ***$p < .01$.

via *LevelLagged. Parliament* is still insignificant. The coefficient on *BusinessCaptor* is significant (at .05 level)—but with a negative sign. Oligarchs who are business captors are significantly *less* likely to defend their wealth successfully compared with oligarchs who have shunned public office. Capturing or leveraging the executive office and being represented in parliament is not as favorable to oligarchic wealth defense as commonly assumed. Conversely, supporting political parties clearly pays off: The *Party* coefficient is positive and significant (at .01 level).

In Model (3), we change the dependent variable to *Period* which equals the number of years, 1 to 7, a given oligarch appears in the dataset. Both *Party* and *Media* are significant: Pursuing either of these strategies adds roughly 1 year to the length of the period during which an oligarch was present among the richest 100. Meanwhile, *Parliament*, *BusinessCaptor*, and *StateCaptor* have negative signs and are insignificant.

Next, we return to the longitudinal format. Models (4) and (5) present the results of inverse probability weighted regression (IPW) applied to complete cases. As a way to deal with nonrandom missingness, IPW has particular advantages in our scenario compared with multiple imputation.[12] We create a 0/1 variable *Complete*, indicating oligarchs for whom data for each year are available. We then run a probit regression of *Complete* on *Level* and *WealthOrigin* in the full panel.[13] We take the predicted probability of a case being complete and assign its inverse as a weight to the OLS regression applied to complete cases. This approach gives *more* weight to cases that have a *lower* probability of being complete: As such, these low-probability cases partly “represent” the missing data. (Table A3 in the online appendix compares complete and incomplete cases on all variables.)

We also include year dummies in these and all remaining models to control for exogenous trends and simultaneous shocks arising, for example, due to macroeconomic fluctuations.

IPW results strongly support the inferences made so far. *Media* is significantly associated with higher wealth level, whereas *Party* is significantly associated with both higher level *and* resilience of business wealth. Conversely, direct strategies remain insignificant with negative coefficients.

In Models (6) to (9), we extend the analysis from complete cases to the entire panel. The choice between random effects and fixed effects models presents a trade-off. Random effects models are more efficient and, importantly, allow to estimate coefficients for variables that do not change values over time—However, random effects models assume that omitted variables are uncorrelated with the variables in the model. On the contrary, fixed effects models offer a powerful (but not complete) control for omitted variable bias, yet they are less efficient and cannot be used to estimate the effects of time-invariant variables in panel data. Fitting both models successively to our data enables us to compare the results in light of these considerations.

Instead of a simple random effects model, we use a mixed model that combines random effects and fixed effects. Traditionally used for spatially nested data, mixed models have become widely used to analyze longitudinal data; for the latter, mixed models are preferable to the random effects models when the number of yearly observations varies from subject to subject, and/or when the yearly observations for a given subject are correlated (Fox, Negrete-Yankelevich, & Sosa, 2015, pp. 309-311; Gelman & Hill, 2006, pp. 241-244). In columns (6) and (7), we fit a hierarchical two-level linear mixed model in which the upper level corresponds to subjects (oligarchs), and the lower level to measurements within subjects (yearly observations). The fixed effect parameters here capture how the mean response in the population varies due to treatments (independent variables), whereas the random effect parameters capture oligarch-specific variability. To address potential autocorrelation between yearly observations, we employ an AR (1) error structure along with a random intercept for each oligarch. The coefficients on *Media* and *Party* are significant at .01 level in Models (6) and (7), respectively. *StateCaptor* and *BusinessCaptor* coefficients are significant at .1 level with a *negative* sign in Model (7), whereas *Parliament* is consistently insignificant and negative.

Finally, Models (8) and (9) include individual and year fixed effects, as well as standard errors clustered by individual oligarchs. These models help control for all potentially relevant individual-specific and time-invariant characteristics. *StateCaptor*, *BusinessCaptor*, and *Media* all drop out in the fixed effect model, leaving *Parliament* and *Party* as the only proxies for direct and indirect strategies, respectively. (Wealth origin proxies and *KuchmaOligarch* drop out as well, as they do not vary over time.) The only significant strategy in these models is *Party* which, as in prior models, positively impacts wealth resilience.

Overall, in Models (6) to (9), direct strategies appear effective relative to indirect strategies regardless of whether random effects or fixed effects are used to model the impact of oligarch-specific factors.

## *Endogeneity and Robustness*

Is the analysis influenced by reverse causation, omitted variables, or influential observations? We address each issue in turn.

Reverse causation presents a particular concern in the cross-sectional Models (1) to (3). However, this concern is alleviated by panel analysis, our coding approach, and theoretical reasons. To start with the latter, as far as the

**Table 2.** Impact of Media on Wealth Level.

| | Level |
|---|---|
| Model (1): Cross-section | |
| MediaTVnatl | 0.64** (0.30) |
| MediaOther | 0.46** (0.22) |
| Model (4): Panel, IPW | |
| MediaTVnatl | 0.75** (0.32) |
| MediaOther | 0.18 (0.16) |
| Model (6): Panel, mixed effects | |
| MediaTVnatl | 0.64*** (0.22) |
| MediaOther | 0.42*** (0.16) |

Model equations correspond to Table 1 except *Media* which is replaced by two proxies reported here. See article text for details. IPW, inverse probability weighted regression.
*$p < .10$. **$p < .05$. ***$p < .01$.

impact of *Party* on *Resilience* goes (the most consistent finding), it is not apparent why oligarchs whose business wealth is *already* well-defended would choose to spend it on supporting political parties (as per endogeneity scenario). Next, consider the coding: For most plutocrats, the following variables with significant coefficients in Models (1) to (3) refer to the career trajectory in the past or to activities before the examined time period, that is, before 2006: *Privatization*, *FromScratch*, *BusinessCaptor*, and *KuchmaOligarch.* Finally, the temporal ordering of longitudinal outcomes in Models (4) to (9) further decreases the possibility of reverse causation.

Could reverse causation still drive the relationship between *Media* and *Level*, as richer oligarchs can more easily afford buying media outlets? To probe this possibility, we capitalize on a sharp difference in the price of discrete media assets, national TV channels being far more expensive than print media, or TV stations that broadcast locally. We replace *Media* with two proxies: One identifies oligarchs who own national TV stations (*MediaTVnatl*), and another identifies oligarchs who own other, much cheaper, media assets (*MediaOther*). These are partly overlapping categories. If reverse causation is responsible for the apparent impact of *Media* on *Level* in Models (1), (4), and (6), then, once separated, only *MediaTVnatl* should remain significant. In Model (4) that is, indeed, the case, as can be seen in Table 2. However, in Models (1) and (6), both proxies have the same significance levels and, while *MediaTVnatl* is larger in size, the size of *MediaOther* is still essentially the same as that of the original *Media* proxy in Table 1. We interpret these results as evidence that the *Media–Level* relationship derives only in part from reverse causation: Media ownership still exerts a sizable and significant impact on wealth level, particularly when compared with direct strategies.

Apart from reverse causation, unobserved heterogeneity may be biasing our results, for example, if omitted variables influence both the choice of a political strategy and the success of wealth defense. Three points pertain here. First, it is not immediately apparent *which* specific omitted variables would (a) not be highly correlated with the variables *in* the model *and* (b) impact both our key independent and dependent variables in line with the results. Taken together, our controls for wealth origin, connectedness to the Kuchma era, sectoral diversification, the level of wealth (for *Resilience* models), and age should proxy well for the salient characteristics of oligarchic "types" that are impossible to measure directly.

Second, to the extent the concern is that unobserved oligarchic characteristics restrict the menu of feasible strategies, this issue is least pertinent in countries like Ukraine that are both politically competitive *and* corrupt. In a marked contrast to Putin's Russia, for example, the media market is free. Both pro-government and oppositionist oligarchs, including newcomers, have owned major media assets throughout the examined period.[14] (Even foreign majority ownership of major media has been present, an anathema in authoritarian environments.) There is also yet to be uncovered a single incidence of a political party declining an oligarch's largesse, regardless of his reputation. Finally, given the chronically split elites, the coexistence of rivalrous oligarchs in office is the norm. Overall, Ukrainian environment offers the superrich an "equality of corruption opportunities," according to social scientists from the region (Rybachuk, 2009, p. 73).

Third, the fixed effects Models (8) and (9) account for time-invariant omitted variables and aggregate-level shocks. Of remaining concern here are confounders that could *vary over time*, for example, certain unobservable personal connections. To address this issue, we follow Truex (2014, p. 240) in narrowing the analysis to a sufficiently short time period, during which such connections and other potential unobservable time-variant confounders would be more constant. In our case, we rerun the analysis for the 3-year window 2010-2012.[15] The results, in fact, show an even greater divergence favoring indirect strategies over direct strategies, suggesting that confounders are unlikely to be driving our key finding.[16]

Finally, we test for influential observations. Cook's *D*, a common measure of influence, is below the conventional threshold of 1 for *Level* models (the maximum is 0.07). For *Resilience* models, Cook's *D* is higher but still below the threshold (the maximum is 0.90). We follow up by plotting the observations' squared residuals against leverage for the *Resilience* model. Three observations have either unusual leverage or residuals but not both; removing these oligarchs does not change the results appreciably.

### Summary

Table 1 offers three theoretically important findings. First, contrary to the logic of commitment compensation, direct rule does not help oligarchs defend their wealth and may, in fact, hurt them. Second, indirect strategies appear extremely effective. Party support especially is significant in all four models where *Resilience* is the dependent variable (in two of them at the .01 level); it is also significant in Model (4) where *Level* is the dependent variable. Substantively, support of political parties boosts wealth resilience by 19% in the most conservative estimate which, while large, is in line with the only related available study.[17] Media ownership is consistently effective at helping oligarchs achieve superior wealth levels. Third, we do not detect a pattern among the sector coefficients that would suggest that structural power protects oligarchic wealth. (Table A4 in the online appendix also provides the breakdown of wealth level and resilience by sector.) Neither sectors with higher asset mobility nor those with higher tax contributions appear consistently significant.

## Mechanisms: The Logic of Flexibility

Why, in a lawless but competitive kleptocracy, do indirect strategies protect the wealth of individual oligarchs while their direct rule or structural power does not? The ineffectiveness of *structural power* in our case highlights a problematic assumption in the literature, namely, that *the power of state elites is contingent on economic growth*: It is the threat of economic decline that gives an advantage to business owners who can move their capital elsewhere. However, in settings where state elites are driven by short-term "rapacious individualism" (Way, 2005) rather than long-term growth, the structural power of business owners is less important. Our qualitative evidence[18] focuses on the striking contrast between the ineffectiveness of *direct* power and the consistent impact of *party support* on wealth resilience. We return briefly to media ownership at the end of the discussion.

Compared with the "physical" stints in the legislative or executive branch, informal party support affords the superwealthy two key advantages: adaptability and deniability. One can stop supporting a party at any point or contribute to directly rivalrous parties. Conversely, assuming a legislator's mantle or an executive chair makes shifting course or diversifying risk into a political minefield. As Ukraine's top business journalist Leshchenko reports,

> Ten-fifteen years ago, a deputy's ID card was an obligatory attribute [*obov'yazkovym atrybutom*] of a Ukrainian oligarch . . . This custom is dead now. Ukrainian oligarchs have abandoned the idea of seeking a deputy mandate . . . A deputy seat does not save one from trouble . . . while one can make arrangements with any power without being a deputy. (Leshchenko, 2012)

Supporting political parties is ideal for such "arrangements."

Deniability is crucial in semidemocratic systems, where public legitimacy cannot be discounted entirely by the superwealthy. In Ukraine, large parts of the population support the nationalization of oligarchs' assets,[19] an issue that is regularly weaponized by populist leaders and rival oligarchs. After the 2004 Orange Revolution, for example, the danger of "reprivatization" was more than rhetorical under the populist prime minister Tymoshenko, sending big business into panic. From the oligarchs' perspective, it makes sense to abstain from provoking the public, *which is much more difficult when one assumes formal powers*. Working in the legislature or the executive can best enhance one's wealth resilience if these offices are used for the private benefit of the oligarch, for example, through voting in a law that increases the export quotas for one's business (an important benefit of Rada membership for several oligarchs in Ukraine). However, such actions inevitably lower one's public legitimacy, increasing the long-term political risks. It is noteworthy that when president Poroshenko offered the oligarchs to become the governors of nine regions in 2014, all but two of the oligarchs *declined*—a puzzling decision within the logic of commitment compensation. In March 2015, the billionaire governor of Dnipropetrovsk who had *accepted* Poroshenko's appointment, Ihor Kolomoisky, lost control of the oil giant Ukrnafta—and his state job—after a national scandal exposed Kolomoisky's abuse of state resources.

Relative to direct power, supporting political parties lowers the oligarchs' public profile, while wedding the politicians to their sponsors. Victor Pinchuk, Kolomoisky's archenemy and the son-in-law of the former authoritarian president Kuchma, has stunningly remained Ukraine's second-richest individual through the Orange Revolution and other shocks by following the logic of flexibility. He stopped running for parliament after 2002, shifting to the support of strategically important deputies from various political forces. During the 2012 Rada elections, Pinchuk promoted the ruling *antidemocratic* Party of Regions *as well as* his own unaffiliated candidate. Arseniy Yatsenyuk, a key opposition leader who would become prime minister three eventful years later, remarked to Pinchuk in 2011: "We must liquidate the oligarchs . . . [but] Viktor, don't get nervous, you are not an 'oligarch'. You are under the protection of democratic forces!" (Leshchenko, 2011). The indebtedness of "democratic forces" to the oligarch was such that key opposition parties (Fatherland and UDAR) *withdrew their candidates in Dnipropetrovsk to boost the prospects of Pinchuk's favorite*.

Meanwhile, the oligarchs-qua-legislators not only publicly advertise their self-serving exercise of power but are also forced to take a stance on issues they would rather keep quiet about. For example, the Ukrainian media published the names of Rada deputies who voted for the "dictatorial laws" of January 16, 2014. This "list of shame" [*doshka han'by*] made major headlines that highlighted several plutocrats among the 239 deputies who voted in favor of the laws designed to crush the opposition to (former) president Yanukovych. While the parliamentary plutocrats could have done without the spotlight, no names of party financiers who did not personally sit in parliament were mentioned by the NGOs and the media covering the list of shame.

When invisibility is not an option, as is the case for the wealthiest members of a high-stakes unconsolidated democracy, deniability is the next best thing. What is deniable is not the general shadow influence but the *responsibility for specific decisions*. Surveys of public opinion support our intuition. Ukrainian sociologists point to a paradox. Voters are against big business in politics; however, they are pleased with their preferred parties which are invariably sponsored by big business. According to the March 2013 representative survey by the Kyiv International Institute of Sociology, only 5% of Ukrainians approve of the fact that many of *Rada's deputies* are oligarchs, with 61% strongly disapproving. At the same time, only 14% of the voters would potentially *rethink supporting their preferred party if they found out how it is financed*. Forty-eight percent of Ukrainians are already sure that their preferred party is financed by the oligarchs.

Deniability is important not only vis-à-vis the demos but also vis-à-vis a potential dictator. Dual-pyramid systems, such as Ukraine with its divided executive, can be extremely volatile from the oligarchs' perspective (Hale, 2015): Among the rival political elites, whom should the oligarchs bet on? The chances of miscalculation in such systems are higher compared with the single-pyramid systems such as Russia. The risks, meanwhile, are much more serious than in the rule-of-law democracies, as retribution can be swift. After the 2004 Orange Revolution, some oligarch supporters of the *ancien régime* fled the country (Rinat Akhmetov temporarily, and Ihor Bakai permanently), while an oligarch banker (Yury Liakh) was found with a slit throat and a dubious suicide note. In such "interesting times," how can the plutocrats boost their wealth resilience? Party support allows the plutocrats "to split the difference" between competing power poles more easily than the direct legislative or executive affiliation with a political force.

### Zhevago Versus Firtash

To further visualize these mechanisms, we present a structured comparison of two billionaires, Kostiantyn Zhevago and Dmytro Firtash, who share crucial characteristics. In terms of wealth origin, both are privatization oligarchs who assembled their wealth during Kuchma's regime. Both had started out in gas trade and later branched out into electricity generation. Both were invested in heavy industry and natural resources during the 2006-2012 time period. Both have faced accusations of raiding and legal violations, suggesting a similarly unoriginal agenda of ruthless wealth maximization.

Yet the trajectories of their wealth clearly diverged. In 2006, Zhevago's business wealth was worth US$1.7 billion, and Firtash's US$1.4 billion. By 2012, Zhevago's fortune gained 13% compared with its original value, whereas Firtash's fortune gained 138%. Whence the tenfold difference in these numbers, despite roughly comparable starting points?

The two oligarchs faced political threats of comparable intensity and duration; if anything, Firtash faced stronger head winds overall. In 2006-2012, the two oligarchs were aligned with the rival political forces: Zhevago with Yulia Tymoshenko's Orange team and Firtash with the Donbass team of Viktor Yanukovych. Until February 2010, Ukraine's key executive positions were staffed by the Orange team. As could be expected in a competitive kleptocracy, Firtash experienced serious attacks on his wealth during this period. In 2009, Tymoshenko amputated the most lucrative arm of Firtash's empire by cutting his RosUkrEnergo company out of Ukraine's gas trade with Russia. After Yanukovych had become president, the tables turned. In 2011, the Ukrainian secret service visited four of Zhevago's companies and initiated a criminal case against him alleging tax machinations. Ferrexpo, Zhevago's crown jewel, experienced sudden problems with the refunding of the value-added tax, and the company's profits plunged 2.7 times in 2012. However, the years of Yanukovych were no cakewalk for Firtash either, as Yanukovych's own family began competing with the oligarchs around RosUkrEnergo.

Firtash thrived while Zhevago merely survived due to the difference in their political strategies. Zhevago is a believer in direct power: He has participated successfully in each single Rada election since the late 1990s (1998, 2002, 2006, 2007, 2012, and 2014). After the Orange Revolution, he won the 2006 and 2007 elections on the party list of Tymoshenko's BYuT party. In 2008, amid intense controversy, Zhevago used his deputy mandate to help replace the head of the State Property Fund, an "old-school" socialist, to privatize a number of major assets to connected firms. Although potentially profitable in the short run, in the long term, direct power is risky. The

Ukrainian press reported widely on the Tymoshenko–Zhevago tandem. In 2010, Zhevago sat as a card-carrying member of BYuT in the Rada during the tectonic shift in the balance of power. The damage was done: His direct power assumption under Tymoshenko in 2006-2010 made him an obvious target for Yanukovych who unleashed his security services upon Zhevago. In the 2012 and 2014 elections, Zhevago ran as an *independent* candidate in a majoritarian district. Yet if he learned his lesson, then only partially. Staying away from direct power *altogether* can be a smarter move.

Enter Firtash, the epitome of an "always private" oligarch who never sat in the Rada or assumed any state office. (Importantly, Firtash did try—unsuccessfully—to run for Rada in 2002, suggesting that he was not fundamentally different from Zhevago on an unobservable characteristic that dictated his strategy choice.) Throughout his career, Firtash has been supporting in a surgically targeted manner various forces across the political spectrum, disrupting cohesion among his enemies, while making friends with direct access to power or those who could gain such access in the future. Usually associated with the anti-Orange Yanukovych, Firtash was in fact *also* close to the Orange president Yushchenko. According to reports by the former U.S. ambassador to Ukraine, revealed by WikiLeaks, Firtash was not only Yushchenko's sponsor but also his "unofficial adviser" by 2008. Indeed, it was Yushchenko who, 2 years after riding the Orange Revolution to power to restore justice, blessed Firtash's RosUkrEnergo (a superfluous intermediary between Russia's Gazprom and Ukraine's Naftogaz) for entry into the gas market in 2006. Firtash knew how to make his support personal: In addition to the president's party, he financed the president daughter's charity outfit, for example. Yushchenko helped Firtash protect RosUkrEnergo for 3 years, amid inquiries into Firtash's dealings by the U.S. Department of Justice and Tymoshenko's relentless attacks. At the same time, Firtash cultivated a close relationship with the anti-Orange Party of Regions. In 2010, when Yanukovych came to power, Firtash was ready to embrace him. In the 2012 Rada elections, along with the seemingly invincible Party of Regions, Firtash *also* generously bankrolled the anticorruption pro-European party UDAR led by the charismatic boxer Klitschko. By 2014, the boxer would emerge as a key leader of the protests that ousted Yanukovych, carrying UDAR to victory in the extraordinary 2014 Rada elections (as part of the Petro Poroshenko Bloc). Before the presidential elections in May 2014, Firtash met with Poroshenko and Klitschko in Vienna. The result? According to Firtash himself, "we got what we wanted: Poroshenko as president and Klitschko as mayor [of Kyiv]" ("Firtash: my otrymaly," 2015). Throughout the period, Firtash's noncommitment also allowed for personal friendships in critical ministries, regardless of political winds.

## *Coevolution of Capitalists and Parties*

The logic of flexibility is fundamentally different from the orthodox logic of commitment compensation. This begs the question: In relying on arm's-length party support in a system lacking the rule of law, why are the Ukrainian oligarchs not concerned about renegade politicians with direct access to coercion? We address this puzzle by examining three stages in the coevolution of political parties and private wealth in Ukraine.

In the first stage, private wealth was relatively modest and diffuse. At the outset of primitive accumulation during the early 1990s, the oligarchs were just being made in a harsh Hobbesian environment without established players—and *the logic of commitment compensation held*. Prior to the ruthless business consolidation, which began in earnest after the 1998 Rada elections, the sea was full of proto-oligarchs, the absolute majority of whom would later be devoured by larger fish. In this context, financing politicians without directly controlling the decision-making process was unwise. Not only the risks of trusting political intermediaries but also, crucially, the *rewards* of *direct* power were enormous. Just as the red directors had rushed to the Rada in 1994, the want-to-be privatization oligarchs swamped the 1998 Rada, expecting to steer the unfolding privatization of large assets.

During Stage 2, after the outsize fortunes had been made and the heavyweights of Ukrainian plutocracy established, the politician–plutocrat dynamic changed. Before, a politician could ignore his promises to a proto-oligarch (an ambitious owner of a midsize factory) after collecting political donations from him and winning office—Chances were, the budding capitalist would expire before the next election. In an established plutocracy, however, cheating one of the wealthiest people in the country came to carry a much higher cost. Ukrainian parties were reduced to organizational manifestations of oligarchic clans. Importantly, *each party corresponded to a specific clan*, its boundaries defined by economic sectors and regions (Puglisi, 2003). (The Party of People's Democracy was the extension of the military-industrial clan from Dnipropetrovsk, the Social Democratic Party represented the financial oligarchs from Kyiv, etc.). As the clans were at each other's throats, so were their parties. Compared with Stage 1, this period of Ukrainian plutocracy offered a clear advantage to those with *ploutos*: being cheated by a political intermediary became a nonissue. However, the rigid clan–party identification did not afford the oligarchs any flexibility: Their financial eggs stayed in a single political basket.

The 2004 Orange Revolution thrust Ukraine into Stage 3. Popular triumph over Kuchma's regime introduced democratic competition, involving parties with charismatic leaders who championed an antioligarchic "justice" agenda.

More generally, the essence of the revolution was a "victory of politicians over the CEOs."[20] To many Ukrainians, the political arena was no longer a plutocratic circus. Yet over time, the show resumed, while becoming much more sophisticated. The oligarchs discovered the Achilles heel and the silver lining of the newborn democracy. On one hand, the parties still needed money to function, the oligarchs being the only plausible source of support. On the other hand, the new system maximized adaptability and deniability for the oligarchs. The party–clan identification began to fray before the Orange Revolution, due to raiding wars and an acute lack of trust within oligarchic clans. The post-2004 democratization dramatically accelerated the process, allowing the oligarchs to spread their wealth across real political forces. Meanwhile, the popular legitimization of party leaders as independent entities allowed the oligarchs to plausibly distance themselves from the decisions in the parliament and the executive. According to a former executive manager at Kolomoisky's Ukrnafta, such politician–oligarch accommodation is only likely to deepen in the wake of the military crisis which has elevated the political salience of war service in the context of a destitute state army:

> Oligarchs rarely enter the Rada in person anymore . . . instead, we've had the principle of "sneak in as many of your own [deputies] from different parties" . . . which is all the more valid today, when all the volunteer battalions [fighting the pro-Russian separatists] are practically semiprofessional private armies paid for by specific oligarchs . . . Naturally, their "combatant deputies" [i.e., ex-officers elected thanks to their military duty] will lobby the business interests of the owner, but under the guise of protecting the Fatherland. (S. Markus, personal communication, January 22, 2015)

## *Media Ownership*

Two points are due regarding the impact of media ownership on wealth level. First, it does not derive from the increase in the value of media assets themselves—Instead, the mechanism is political. The value of Ukrainian media assets as such has suffered from small commercial advertising income, crippling regulation, and intense competition in an overpopulated market (Ryabinska, 2011, pp. 4-5). Furthermore, media assets constitute only a small portion of the media oligarchs' portfolios.[21] Yet the seemingly peripheral media assets are crucial for "the development of other kinds of businesses" which requires "political capital . . . [and] the advertising-propaganda resource of the mass media" (Ryabinska, 2011, p. 8).

Second, media ownership appears to have more impact on the *level* than the *resilience* of wealth. Why? One interpretation is that factors influencing aggregate wealth, including media ownership, work in the long run as compared with factors that drive year-to-year changes. While party support links the agendas of politicians and oligarchs directly, media ownership involves additional steps related to Ukraine's ultracompetitive media environment. From the politicians' perspective, media-owning oligarchs must continuously prove that their specific media assets are still politically relevant and can influence public opinion.[22] From the oligarchs' perspective, Ukraine's relatively sophisticated media consumers abandon sources that engage in "banal *agitprop*" (Dovzhenko, 2009), as pro-Yanukovych oligarch Akhmetov found out in the 2010 presidential election, forcing the oligarchs to maintain a certain level of media reputability.

## External Validity

Our argument about the superiority of indirect strategies over direct rule or structural power applies most to the postcommunist emerging democracies, that is, underinstitutionalized and volatile but also competitive systems in which "elections are civil war fought by nonviolent means" (Hale, 2015, p. 1). For example, our findings help explain the puzzling voluntary departure of the state captor Bidzina Ivanishvili from his post of prime minister of Georgia in 2013 after only 1 year in office. After maneuvering his protégés into positions of power, the country's richest man calculated that his US$5 billion fortune would maximize de facto influence while minimizing accountability if he abandoned formal office. Indeed, the billionaire has kept a tight grip on national politics through his influence on the Georgian Dream party: "Ivanishvili is outside democratic control, outside institutional checks and balances, yet he is ultimately calling the shots" (Lomsadze, 2014), according to a Georgian political scientist.

Our findings also propose a research agenda for the broader set of developing democracies such as Argentina, South Africa, or Indonesia that, instead of democratic consolidation or authoritarian backsliding, "careen" (Slater, 2013) between oligarchic politics and populist backlashes. Ivanishvili's story would be familiar to Thaksin Shinawatra of Thailand, an oligarch and former prime minister, who experienced the treacherousness of direct power (in the form of a military coup) but managed odds-beating wealth preservation and a political comeback via strategic party support (of Pheu Thai) and media ownership.

Oligarchic indirect strategies are distinct from business hedging in the rule-of-law democracies. Business hedging in the shadow of strong institutions is pursued by corporations or their associations, and seeks long-term relationships with politicians as well as policy benefits affecting entire industries and often broad swaths of shareholders (McMenamin, 2012). Conversely, politics in a developing democracy is dominated by individuals and focuses on specific private benefits; in Olsonian terms, the interests here are vastly less encompassing. Furthermore, the balance of power between politicians and the superrich favors the latter exponentially in underinstitutionalized settings. In the West, corporate capital simply lacks the option of starting a successful "business party" de novo (Wilson & Grant, 2010). Conversely, consider Ukraine where Kolomoisky jumpstarted the party UKROP (Ukrainian Union of Patriots) in June 2015: Only weeks after its conception, UKROP was aiming to destabilize the political situation, so as to force Ukraine into extraordinary Rada elections in which the party was projected to do well. This is inconceivable in most consolidated democracies, no matter how generous the corporate contributions to the party coffers. In the rule-of-law democracies, corporate capital lobbies parties—in countries like Ukraine, oligarchic capital owns them.

Two scope conditions apply to the superiority of indirect strategies at wealth defense. First, across countries, our argument should pertain less to consolidated authoritarian regimes. The premium on flexibility in such settings is much smaller, as the dominant strategy for the superwealthy is to put all of their eggs in the dictator's basket. The key issue in regimes such as China is not *how* material power is deployed but *for whom*.

Second, within countries, the argument should apply to the oligarchs but not necessarily to the "regular" capitalists. Massive wealth of individual businesspeople shifts the risks of incomplete informal bargains from businesspeople to politicians. To the great *benefit* of the oligarchs, their fortunes provide signaling value. At extreme levels, concentrated wealth signals to any counterparties that the wealth-holders are "here to stay" and that reneging on any bargains with them will be costly. Smaller capital owners, conversely, may still see themselves cheated by the political intermediaries.[23]

## Conclusion

Superwealthy individuals comprise a cohort on the rise across the globe—As scholars of oligarchy, we would benefit from a more comprehensive political sociology of extreme wealth. Through individual-level data, this article profiled the Ukrainian plutocrats and tested the determinants of successful wealth defense in a postcommunist economy with nascent democratic institutions.

The trade-off between commitment and flexibility is recognized in the literature on policymaking (e.g., Lohmann, 1992), yet it has not been incorporated into the literature on oligarchy and wealth defense. Our analysis suggests that the superrich in lawless but politically competitive environments do better when they err on the side of flexibility.

Compared with the theories of commitment compensation, the logic of flexibility involves different assumptions about the nature of wealth-related conflicts and the balance of power between politicians and oligarchs. Commitment-oriented theorizing posits conflicts between powerful holders of coercive resources and vulnerable holders of wealth. Given this power imbalance favoring the ruling politicians, bargains between politicians and oligarchs are not credible, a predicament for which the oligarchs compensate by assuming direct power. Through direct power, however, the oligarchs commit *themselves* to a specific political force. Conversely, the logic of flexibility posits dynamic and multilateral conflicts in which the oligarchs are, to begin with, powerful by virtue of their extreme wealth. The unpredictability of these conflicts—involving not only politicians but also rival oligarchs (who may assume power in the future), and the general public in a democratic setting—makes the oligarchs' self-commitment to one political force dangerous. At the same time, the utter dependence of politicians on the oligarchs' finance (including for coercive resources), and the ability of oligarchs to jumpstart *new* political forces, makes such commitment unnecessary.

Besides contributing to the literatures on postcommunist oligarchs and the optimal strategies of wealth defense, our study has implications for the relationship between democratization and material power as such. Seminal works in political economy conceptualize such relationship as an inverted U-shape (Acemoglu & Robinson, 2006; North et al., 2009). In consolidated autocracies, capital-holders are at the mercy of the autocrat; as horizontal checks and balances are introduced, the power of the superrich peaks; as democratization progresses toward vertical accountability to the electorate and mass participation, material power declines as wealth-holders face redistributive demands and scrutiny by the poor. Conversely, our study shows why democratization is *not* a threat to the superrich. The oligarchs stay immune to democratic pressures, even in the absence of strong cross-oligarchic interest groups, not through direct rule or asset mobility—but through the complete domination of the party system. Rather than shunning vertical accountability, the most successful oligarchs mimic it by subjecting affiliated politicians to the ordeal of electoral battles (and consequences), while cultivating a number of alternatives across the political spectrum.

Modern Ukrainian history demonstrates rudely that oligarchs do not expire—Politicians do. Support of political parties and media ownership are velvet gloves on oligarchs' iron fists: Compared with direct power, these strategies both mask and magnify the punch over time.

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## Notes

1. Poroshenko, for example, has refused to divest of his assets (which include a chocolate factory and a TV channel) after assuming office, despite electoral promises.
2. We stop our period with the 2013 issue of *Fokus* because wealth numbers from the March 2014 issue were affected by the geopolitical crisis and violence in Eastern Ukraine, that is, by an irregular threat to wealth that is outside of the scope of domestic threats on which our framework focuses.
3. Between 2011 and 2014, Markus conducted 18 elite interviews in Kyiv with think-tank experts, government officials, and senior managers at oligarch-owned firms.
4. Rinat Akhmetov (US$12.7 billion), Victor Pinchuk (US$4 billion), Ihor Kolomoisky (US$3.8 billion), Gennadiy Bogolyubov (US$3.6 billion), Kostiantyn Zhevago (US$2.1 billion). Average 2006-2012 business wealth in parentheses.
5. The identification of "oligarchs" can be done in relative (the richest X percent) or absolute (at least X dollars net worth) terms. Ours is a relative definition that is sensible in absolute terms. The global wealth management industry defines "ultra high net-worth individuals" as those owning more than US$30 million in financial assets. The poorest of 177 plutocrats in our database possesses US$56.4 million in business wealth.
6. Red directors had served as plant managers or farm directors in the Soviet era, and were well positioned to exploit their connections and their direct control over enterprises and other assets to enrich themselves without participating in privatization.
7. For the privatization oligarchs, this time threshold is relatively easy to establish, because major privatizations enriching specific individuals are discrete events. For other groups, the precise threshold is more elusive but can still be determined within a span of 1 to 2 years by tracing the acquisitions of major business assets and their approximate value.

8. The actual magnitude of the drop is likely to be even higher, as we do not have a list of 2002 oligarchs, and it is likely that our 2006 list does not contain some of the 2002 oligarchs.
9. Ukrainian law prohibits state financing of parties' electoral activity, while membership fees and voluntary contributions from nonoligarchs are minimal. The regular monthly expenditures of a big Ukrainian party constitute US$5 to US$6 million, while the total campaign expenditures in the 2012 Rada election amounted to US$570 million, according to experts.
10. For Models (1) to (3), we average these dummies across years for which data on each oligarch are available. For example, if Oligarch A was covered over 4 years during which he was a Rada deputy for 2 years, then *Parliament* for A equals 0.5.
11. For the cross-sectional data in Models (1) to (3), *Resilience* is averaged across years for which the data on a given oligarch are available. For the panel data in Models (4) to (9), *Resilience* is year-on-year percentage change.
12. Inverse probability weighted regression (IPW) is preferable when individuals with missing data have missing values on more than one or two variables, or when the predictors of missingness in complete cases may differ systematically from those in incomplete cases (Seaman & White, 2013).
13. Technically, *Complete* should only depend on the level of wealth. We also include *WealthOrigin* as the latter may affect the visibility of a given oligarch and hence her inclusion in the rankings.
14. Furthermore, among 29 media oligarchs in our data, only 16 are "privatization" or "red directors" by wealth origin, the rest being the nontraditional "executive" and "from scratch" oligarchs.
15. This window is the most adequate: The protracted uncertainty as to who would succeed president Yushchenko, that had paralyzed the Ukrainian government, was resolved in 2010, with Ukraine entering a period of perceived authoritarian stability, during which uncertainty-driven alliance shifts were less problematic.
16. In Model (9), *Party* increases in size to 29.09 (from 18.96) while *Parliament* decreases to −12.17 (from −5.95); the significance levels remain unchanged. The results for Model (8) remain essentially unchanged, with *Party* increasing in size by .05.
17. Earle and Gehlbach (2015, p. 719) estimate that after the Orange Revolution, large firms from the Orange regions experienced a 16% annual productivity gain which the authors attribute (by assumption) to particularistic government policies.
18. Unless otherwise noted, the discussion draws on Markus's elite interviews in Kyiv 2011-2014.
19. The most frequent answer (26.3% of respondents) to the question "what should be done with oligarchs' property?" was "it must be nationalized completely," according to a representative December 2014 survey by Kyiv International Institute of Sociology.
20. Markus's interview with Volodymyr Dubrovs'kyi, senior economist at CASE Ukraine (Kyiv, December 18, 2012).
21. Among 29 media-owning oligarchs, only five own media assets that are worth more than one third of their respective portfolios.

22. This explains, for example, the fact that TNS Ukraine, the monopolist in media audience research (that publishes circulation numbers on print media, etc.), is highly politicized.
23. Indeed, survey analysis suggests that for *non*oligarchic business owners in Ukraine and Russia, membership in political parties does not reduce threats to their property rights (Markus, 2015, pp. 189-194).

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