Who Benefits from Tax Evasion of Politically Connected Firms?

Ruben Enikolopov, Sergey Mityakov[1]

We study the impact of hiring former government officials on firms' tax evasion using a unique administrative employee-employer matched data from Moscow, Russia. We find that firms hiring former top-level city government officials experience increased tax evasion: reported salaries of the firms' employees decrease, while the actual compensation increases. Using instrumental variables based on local reorganizations in Moscow government, we show that these effects have causal interpretation. Importantly, the "benefits" of tax evasion accrue not only to the top-managers but are widely shared among other firms' employees, which likely makes those practices difficult to uproot.

JEL codes: D73, K42

Keywords: corruption, tax evasion, politically connected firms

Date: March 10, 2023

---

1. Introduction

There is mounting evidence that political connections convey many benefits to the firms in terms of easier access to government subsidies and contracts, preferential access to finance, higher probability of bail-out, etc. (Faccio, 2006; Faccio, Masulis and McConnell, 2007; Claessens et al., 2008). However, there is still no evidence on the distribution of benefits from such connections within the affected firms. Do these benefits accrue only to top management or are they more widely shared among firm's employees? The policy implications of these two competing stories are drastically different. In the latter case nefarious activities associated with preferential treatment by the government might enjoy support of a larger share of employees, which likely would make it more difficult to curb or uproot those activities.

For lack of data, existing literature has focused either on firm-level outcomes or on the outcomes for the top management. In this paper, we aim at filling this gap by examining the effect of creating government-firm connections on one of the most widespread, and potentially most lucrative, form of the abuse of government regulations – tax evasion with a particular focus on studying its distributional effects among the firms' employees.

We utilize a unique employee-employer matched dataset which covers all individuals employed in Moscow, Russia, in the period 1999-2003 to establish a link between firms' hiring of city government officials and subsequent increases in the firms' tax evasion. Tax evasion is measured as the difference between reported wages and actual compensation, estimated using the methodology of Braguinsky et al. (2014). Since this dataset covers *all* employees of all Moscow establishments, this allows us to document not only the effects for the *average* employee in each firm, but also address the *distributional* aspects at the firm-level.

We have the following main findings. First, after a company hires an ex-top level government official the reported incomes of the existing employees decline, thus, reducing

payments for personal income taxes, as well as social security and mandatory health insurance contributions.[2] At the same time, actual earnings of the same employees seem to increase as evidenced by the increase in the values of the cars owned by them. There is a notable heterogeneity of the effect depending on which branch of the Moscow city government the official came from. Specifically, government officials coming from the offices positioned higher in the chain of government command have a higher impact. Taken together, these results imply that political connections lead to an increase in tax evasion. To show that these patterns have a causal interpretation, we use instruments based on a shock to the supply of former government officials caused by the administrative reorganization of Moscow government in 2002-2003 that involved the dissolution of a specific type of local administrative units – Territorial Units with Special Status (TUSS).

Second, we provide evidence that the benefits from establishing political connections are not limited to top management but are more widely shared among the firms' employees. Namely, we show that the decline in reported compensation and the increase in actual compensation (proxied by higher car values) is the highest for the non-top management employees positioned above the median of the prior period earnings distribution within the firm.[3] The effects are similar *qualitatively* for top managers but are *smaller* in magnitude.

Third, we show that the hire of a former government official by a firm induces changes in the distribution of reported earnings within this firm that are indicative of tax evasion. Namely, as

---

[2] At the time those contributions amounted to more than 35 percent of the total wage bill in Russia, resulting in particularly strong incentives to evade or reduce those obligations. Also as noted e.g. in Yakovlev (2000) and Chernykh and Mityakov (2017) reduced tax obligations on labor compensation do not necessarily imply higher profit tax burden, as some of the labor tax "optimization" could be achieved through tax loopholes without an increase in reported profits.

[3] Here we use the following insight from Braguinsky et al. (2014) who argue that while the reported earnings can be falsified, the relative rankings within a particular firm earnings distribution would likely still reflect this firm hierarchy of command.

a result of the hire of former government official, there is a significant increase in the share of employees for whom the reported wage falls near the lowest legally allowed threshold: the statutory minimum wage. The statutory minimum wage in Russia at the time was set at artificially low level. To put it in perspective, spending the full amount of statutory minimum wage would allow buying only 10 liters (2.6 gallons) of regular gasoline in a month (without any money left for other expenses). Given that we consider the sample of car-owners it is unlikely that anybody regularly driving the car would be able to do so while receiving the actual compensation anywhere near the statutory minimum wage.[4]

Finally, we show that the hiring of government officials has lasting effects on firm's tax evasion activities, which persist even after the hired ex-government official eventually leaves the firm. We argue that government officials allow firms to establish connections that remain in place even after this official leaves the firm. Again, these effects tend to be more persistent in the case of the officials that come from offices positioned higher in the chain of command within the Moscow government.

One of the main contributions of the paper is to show the benefits of political connections accrue not only to people in the top positions of the firms but are shared with a considerable portion of the firm's workforce (namely the more productive and skilled employees). Due to data limitations, most of the existing papers focus on the top management both in the definition of political connections or in the analysis of its effects (Faccio, 2006; Fan et al., 2007; Boubakri et al., 2008; Ferguson and Voth, 2008; Zhang et al., 2016). Our findings have a very important policy implications, as they suggest that to curb nefarious corporate activities (such as tax evasion) it

---

[4] This also agrees with anecdotal evidence we have heard on the field in Russia, where paying the MMW was (and still is!) a common tax evasion practice. See e.g. https://sovcombank.ru/blog/biznesu/kto-otvetit-za-seruyu-zarplatu-i-kak-dokazat-ee-suschestvovanie#h_6956549147163478147521 7 (in Russian, last checked Oct 18, 2022). See our discussion in the main text (in Section 4.2) for more details.

might be not enough to target top management, as the benefits from such activities are widely shared and are likely to receive support of the employees at large. To the best of our knowledge this is the first study to document distribution of benefits from political connections.

We also show that it is not enough to look at the mobility of top managers. Our analysis indicates that former top-level government officials are not always hired in the top managerial capacity. Yet, the hiring of government officials in such lower-ranked positions is still associated with sizeable effects on tax evasion. More importantly, we find that looking only at government officials hired to top management would severely underscore the magnitude of the resulting tax evasion effects.

In addition, existing literature focuses almost exclusively on political connections with elected politicians, whereas our paper shows that firms benefit from the connections with the bureaucrats as well. This evidence relates to the growing literature on the importance of bureaucrats in the working of the government (e.g., Dal Bo et al., 2013; Xu et al., 2018; Bertrand et al., 2019).

Methodologically, our paper exploits a novel source of quasi-exogenous variation in the probability of establishing political connections with former bureaucrats. The identification approach is based on the variation in the local supply of former public officials due to reorganizations of local government. Existing works have used the results of close elections (e.g., Goldman et al., 2013; Do et al., 2015) or sudden deaths of connected individuals (e.g., Faccio and Parsley, 2009; Nguyen and Nielsen, 2010; Cheng, 2018) to establish the causal link. The former approach is only valid for establishing connections with acting politicians, whereas the latter allows for identifying the effect of breaking the connections rather than establishing them. There might be important differences between the causal effect of establishing and breaking connections

as long as there are some dynamic effects in the way political connections affect firm performance. This is confirmed by our results that show that the effect persists even after the former government official leaves the firm.

The rest of the paper is organized as follows. Section 2 describes the sources of data and construction of the sample. Section 3 contains main empirical results. Section 4 contains extensions and robustness checks. Section 5 concludes.

2. Data description

2.1. Background Information

In our study we use data for Moscow, the capital of Russia, covering the period from 1999 to 2003. Russia is a federation consisting of regions and republics, in which two cities – Moscow and Saint Petersburg – have a special independent status that is equal to that of a federal subject. Because of its importance, the Moscow Mayor office has long held some form of independence from the federal government. During the period of our analysis, this post was held by a popular and populist Mayor – Yuri Luzhkov. Yuri Luzhkov held this office from 1992 until 2010 and was one of the serious contenders for the presidency of Russia during the period of our analysis. In this regard, the Mayoral office was particularly influential in local Moscow affairs and experienced little intervention from the federal government. Additionally, the Moscow Mayor office was quite often accused of high-level corruption and embezzlement of funds through affiliated companies, particularly the ones belonging to the relatives of the Moscow Mayor. Incidentally, Yuri Luzhkov was the husband of the wealthiest woman in Russia at the time – Elena Baturina. She made her fortune in a construction business that was predominantly in Moscow. However, the Moscow Mayor always vehemently denied any role in his wife's business successes and attributed her prosperity and wealth to her business acumen.

Moscow city government consists of several tiers. First, there is the Moscow Mayor's central office, which is the central governing body of the executive government branch in Moscow. Second, there are different subsidiaries (i.e., departments) of the Mayor's office, such as the Department of Finance, Budget Planning Department, Department of Public Construction, etc. Finally, Moscow city is divided into administrative subdivisions (*administrativnyi okrug*) which are governed by "prefectures," which are further subdivided into smaller territorial units (*rayons*) that are governed by "upravas." At the time of our analysis, there were 10 prefectures and more than 120 upravas.

The main mayor's office oversees operations for the whole city of Moscow, so its employees are likely to have the highest authority in governmental matters. The Departments of the Moscow mayor's office are quite heterogeneous in their scope of operation. On the one hand, they include the Department of Education, and Public Health services, which, as Braguinsky et al. (2014) showed, provide ample opportunities for individual-level corruption for government officials employed there: e.g., through providing preferential access to "free" healthcare or "help" with educational difficulties for the students. However, it is quite unclear whether those benefits are portable when such officials transfer into the private sector. On the other hand, Moscow Departments of Public Construction and Infrastructure were (and still are) notorious for embezzlement of taxpayers' funds through government contracts allocated to private firms. In this regard, former government officials from such offices might be particularly valued by private companies bidding for such contracts. Prefectures and upravas represent the next two levels in the hierarchy of city government with lower authority, which results in their impact being smaller.

Before 2003 there existed another type of local administrative units – Territorial Units with Special Status (TUSS). The TUSS were established in 1995[5] with several goals in mind: development and management of industrial or business concentration areas, conservation and preservation of historical-cultural objects or objects of environmental significance, etc. In practice, there were 13 TUSSs, some of which were related to business/industrial infrastructure (e.g., Moscow International Business Center "Moscow-city" or "Zelenogradski" TUSS dedicated to electronic industry), some were related to the management of city park/recreation areas or historical objects (e.g., "Izmailovsky park" the largest recreation park in Europe or "Kitay-gorod" which included Kremlin, Red square, and surrounding areas). [6]

All TUSS were created over 1995-1999 and were in existence by the beginning of our sample in 2000. By law, each TUSS was governed by TUSS's administration, which reported directly to the Prefecture where it was located; thus, bypassing the lower-level local government entities "upravas", which govern Moscow districts.[7] In addition to Administrations, some TUSSs also had managing companies and boards of trusties, effectively making them an experiment of joint management of the respective TUSS areas by government entities and private enterprises. By December 2002, this "experiment" was abolished and all TUSSs were disbanded.[8] The areas comprising those were returned to their original respective districts.

---

[5] TUSS were first mentioned in the Moscow City Code Law №13-47 from 5 July 1995 "About administrative division of the city of Moscow". They were further codified by the Moscow City Code Law №13 from 10 March 1999 "About Territorial Units with Special Status in the City of Moscow".

[6] https://ru.wikipedia.org/wiki/Территориальная_единица_с_особым_статусом (in Russian) for the full list.

[7] Quite often TUSS were created by merging territorial pieces located in different adjacent districts, which naturally made them to be outside of any single district jurisdiction. Even when TUSS were created by taking territory from single district, given their importance, they still were reporting directly to the corresponding Prefectures. In some cases (e.g. in the case of Kitay-gorod), they reported directly to the main mayor office.

[8] Moscow City Code Law №61 from 4 December 2002.

2.2. Measuring labor mobility from Moscow government into companies

We combine several unique administrative datasets from Moscow to investigate whether the hiring of former government officials is related to a company's ability to evade taxes and receive government contracts. In our analysis we consider movements of government employees from different offices in the executive branch of the Moscow regional government to private firms. In our analysis of the labor movements of ex-government officials, we utilize an employee-employer matched dataset assembled by Braguinsky and Mityakov (2015) which contains employment histories for all people residing in Moscow from 1999 to 2003. We construct dummy variables for each establishment-year pair, identifying whether a firm has any employee with past work experience in the Moscow government in a given year.

We consider four separate indicator variables for the presence of a former government employee – one for each of the four levels of city government offices described above (i.e., Mayor central office, the Departments of the Moscow mayor office, prefectures, and upravas). Namely, for each person i we define a (potentially time-varying) indicator variable $G_{i,t}^{(k)}$ for whether person i, by year t, has previously worked in a Moscow regional government establishment of type k, where k=1,…,4 denotes the four groups of government offices described above.

For each company j in year t we define the following four indicator variables:

$$D_{j,t}^{(k)} = \max_{i:j^*(i,t)=j} G_{i,t}^{(k)}, k = 1, \ldots, 4. \tag{1}$$

where function $j^*(i,t)$ indicates a company for which individual i works in year t, so that the maximum is taken over all current employees of company j.[9] In other words, we construct an

---

[9] Since we do not observe employment histories prior to 1999, we drop 1999 observations from the analysis to avoid automatic imputation of zeroes in those indicator variables for 1999.

indicator for whether there is at least one former Moscow government employee working for a company.

We also consider another indicator variable equal to the maximum of these four indicators, which indicates whether a company/establishment has anybody with past work experience in any branch of Moscow government:

$$D_{j,t} = \max_{k=1,\dots,4} D_{j,t}^{(k)} \tag{2}$$

In our analysis, we further restrict attention to former Moscow government employees who can be considered as top-level officials in their respective government office.[10] Top-level government officials are defined as those who used to be among the top 10 percent of highest paid employees by their former government employer.[11]

We also consider cases where former government officials ultimately leave the firms that hired them. Namely, for each firm j in year t, we define an indicator for whether the firm had a former government official in prior periods but not at time t. We consider indicator variables for officials from different branches, k, of the Moscow government as well as the Moscow government as a whole. Formally, those indicators can be defined as:

$$DL_{j,t}^{(k)} = \left(1 - D_{j,t}^{(k)}\right) \max_{s<t}\left\{D_{j,s}^{(k)}\right\} \tag{3}$$

$$DL_{j,t} = \max_{k=1,\dots,4}\left\{DL_{j,t}^{(k)}\right\} \tag{4}$$

---

[10] In a robustness check we consider all government officials but find effects only for the top-level officials.
[11] The assumption here is that, even though reported earnings are falsified, their rankings at the establishment level still correctly reflect the position of an employee within the chain of command. Since different government entities might misreport incomes to a differing degree, we assign top-level government employee status using the particular government establishment-specific earnings distribution. Namely, when we consider top-level government employee of prefectures (or upravas, departments, etc.) we do not lump them all together but instead look at the top 10 percent highest employees for each prefecture (or uprava, department, etc).

Summary statistics for these variables are presented in Table 1. They indicate that around 3 percent of employees in our sample work for employers who employ at least one ex-top-level Moscow government official.

2.3. Measuring Tax Evasion

In our analysis we use the measure of tax evasion developed in Braguinsky and Mityakov (2015) for all Moscow-based establishments over 1999-2003. This measure is based on the observed discrepancy between the reported incomes of employees at a given company or establishment and the market value of these employees important consumption good – cars. In Russia, most employees' tax returns are filed by their respective employers. Regular employees have little say in how much of their actual compensation is hidden in the process. In this regard, larger observed discrepancies between car values and reported incomes are likely to reflect tax evasion undertaken by the company management.[12] In our analysis, we also study the impact of the transfer of employees from the government on components of the Braguinsky and Mityakov

---

[12] At the time of our analysis labor compensation taxes and levies (individual income tax, social security and health levies) were quite high, equating to more than 35-38 percent of total payroll funds. At the same time, employee benefits (e.g., future social security payments or access to healthcare) did not depend much on official wages. This aligned incentives of individual employees and employers to lower reported incomes of employees, as it "released" funds to pay higher unofficial wages/salaries. Additionally, reduction in labor compensation tax obligations did not necessarily translate into high corporate tax obligations either. Specifically, "payment schemes," which reduced reported incomes of employees, were usually accompanied by inflating the tax-deductible part of the company costs. Yakovlev (2001) provides a detailed description of the schemes used at the time of our analysis from his interviews with business owners and managers. One popular method involved setting up "shell" companies, which then sold goods and services to the parent company at inflated prices. Thus, those "shell" companies syphoned and transferred funds from the parent company offshore and were quickly liquidated before being audited by tax authorities. Chernykh and Mityakov (2017) describe another (more benign, in the legal sense) method: "In the case of banks or other companies, that were likely to face a higher scrutiny of the regulators, there were also some semi-legal methods that utilized loopholes in the imperfect tax code. For example, during the time of our analysis a popular way to effectively pay salaries and wages was to purchase long-term annuity contracts for employees, payments from which were disbursed to employees and by law were exempt from income tax. At the same time involved bank or company could subtract the cost of purchased annuity from its profits and did not have to pay payroll taxes on it either. See http://www.buhgalteria.ru/article/47, "Salary schemes" (in Russian)." For the purposes of our analysis, this indicates that labor compensation tax evasion, as accounted for in the Braguinsky et al. (2014) measure, is likely indicative of the overall level of tax evasion at the firm-level.

(2015) tax evasion measure: reported incomes and car values, where we take the latter as proxying

for the actual incomes. See Appendix A for more details on the construction of this measure.

3. Results: Effect of Hiring Ex-Government Officials

3.1. *Hiring of Former Government Employees and Tax Evasion. OLS Results.*

3.1.1. *Empirical specification*

We start our analysis by exploring the relation between a company's hiring of an ex-government employee and tax evasion of its existing employees, who themselves never worked previously in any government entity, in an OLS framework. Namely, we consider the following empirical specification:

$$Y_{i,t} = \beta D_{j(i,t),t} + \gamma X_{i,t} + \delta \mathbf{S}_{j(i,t),t} + f_{j(i,t)} + \phi_t + \epsilon_{i,t} \tag{5}$$

where $Y_{i,t}$ is the outcome of interest for individual i in year t, and the sample is restricted to employees who never worked for the government. In the main specification the outcome of interest is the Braguinsky and Mityakov (2015) measure of hidden earnings calculated based on a discrepancy between (log) reported incomes of employees and their car values. $j(i,t)$ is a company for which individual i works in period t. $D_{j(i,t),t}$ is an indicator for the company $j = j(i,t)$ to employ an individual who previously worked in the Moscow government office. Since we include firm fixed effects, $f_{j(i,t)}$, the estimated coefficient β shows the change in hidden earnings of company employees when a former government official is hired by the company. In all our analysis, we focus on a subset of the firm's employees who themselves never worked in any government office. In addition, in all specifications, we include demographic controls $X_{i,t}$ (age, and position in the company proxied by percentile in reported earnings distribution) and company size $\mathbf{S}_{j(i,t),t}$.

We also estimate empirical specification (5) for components of the Braguinsky and Mityakov (2015) measure of hidden earnings: (log of) reported incomes and (log of) car values. This allows us to contrast the impact of hiring an ex-government employee on reported vs. actual earnings, the latter being proxied by values of cars owned by the employees.

In our analysis we restrict attention to the hiring of government employees who were in a position of command in the government (i.e., top-level officials), proxied by the ex-government employee being among the top 10 percent highest paid employees in the respective government office. [13]

3.1.2. Baseline results

We first analyze the effect of former official coming from any city government office (i.e., consider the indicator $D_{j,t}$ defined in (2)). Estimation results presented in Table 2 Panel A indicate that hiring such a top-level ex-government official is associated with considerable increase in tax evasion scores of the hiring company's employees (column 1). Notably, when a company hires a top-level ex-government employee, reported incomes of its existing employees go down (column 2) indicating a reduction in associated labor tax obligations. At the same time, values of cars owned by the employees go up (column 3), which suggests an increase in actual incomes received. Estimated effects are not only statistically significant but are also of sizeable magnitudes. Hiring a top-level ex-government official is associated with approximately 35(=exp(-0.438)-1) percent reduction in reported incomes and 9 percent increase in car values. Given the 0.35 income elasticity of demand for cars estimated in Braguinsky et al. (2014), this translates into approximately 25 percent higher actual incomes. Note that since our specification includes time and firm fixed

---

[13] In a robustness check we look also at the effect of hiring regular (rank-and-file) vs top-level government officials but effects only for the latter group.

effects, these changes should be interpreted as differences in the rate of change in the respected outcomes.

3.1.3 Heterogeneity by Type of Office.

As mentioned above, local government offices can be divided into four groups: Moscow Mayor central office, the Departments of Moscow mayor, prefectures, and upravas. In Panels B-E of Table 2, we further study how the effect differs depending on the office type of the hired ex-official (i.e., we use government office specific indicators, $D_{j,t}^{(k)}$, defined in (1)). The results presented in Panels B-E indicate that top officials moving from the Moscow Mayor central office have the largest impact on tax evasion, reported incomes, and car values. Departments of the Moscow mayor office and prefectures come second with quite similar effects, followed by upravas. The relative magnitude of the effects match the relative importance of different government offices (see Subsection 2.1).

Overall, we find that hiring a former top-level government official led to sizeable decreases in reported incomes and sizeable increases in the value of cars of the company's existing employees. Those effects tend to vary with the type of the government office, with the effects being larger for the more "influential" local government offices.

3.1.4. Alternative difference-in-differences estimators

In our benchmark estimation we regressed the outcome of interest $Y_{i,t}$ (transparency measure, log reported incomes of car values) for individual i in particular year t working in firm $j(i,t)$ on $D_{j(i,t),t}$ – the dummy whether this firm employs a top-level government official in that particular year, while including firm fixed effects and time fixed effects. Since different firms j hire government officials at different point in time the resulting difference-in-differences estimator

conflates treatment effects of hiring government official at different points in time. Borusyak et al (2021) show how the conventional DiD estimator might be computed on the basis of "forbidden comparisons": when groups that got treatment earlier are used as a control group for the groups that got treated later. This can lead to serious problems with identification in the presence of dynamic and heterogeneous treatment effect.

Recent literature has suggested several approaches to addressing these problems (de Chaisemartin, and D'Haultfœuille, 2018; Sun and Abraham, 2021; Borusyak et al., 2021). We implemented all three approaches above and plot the implied treatment effects (alone with the conventional DiD estimator) from the hiring of ex-government official at different time horizons for reported incomes (Figure 1A) and car values (Figure 1B). The corresponding results are reported in Table A1. In all the estimation approaches we see a clear drop in reported incomes with no adverse effect on car values when a top-level government official is hired.

Overall, the results are robust to using alternative difference-in-difference estimators and the conventional regression-based two-way fixed effects estimator, if anything, results in more conservative magnitudes compared to alternatives.

3.2. Hiring of Former Government Employees and Tax Evasion. IV Results.

3.2.1. Identification strategy

The results presented above, while suggestive, do not immediately admit causal interpretation. It could be that firms that plan to become less transparent attract corrupt government employees. To get a more causal story behind our estimates, we use the reorganization of the Moscow government that resulted in the dissolution of the Territorial Units with Special Status in the end of 2002 (see subsection 2.1) as a source of variation in political connections. We argue that this reorganization represented an exogenous (at the level of an individual firm) shock to the local supply of former

14

(top-level) government officials, which we use as the source of identifying variation in firm's propensity to hire a former government official.

Particularly, to construct instrumental variables, for each firm j we use SPARK-Interfax database to retrieve 6-digit zip code for each firm's registration address and use those zip codes to find the district to which a firm belongs to. We then define variable $TUSS_j = 1$ if the firm j is located in one of the districts that TUSS's were located in.[14] We then use interactions between $TUSS_j$ and all years in our sample: $t = 2000, ..., 2003$ as exogenous instruments for the firm's dummy to employ a former (top-level) government official. Namely, we define:

$$Z_{j,t}^T = TUSS_j * 1(Year_t = T), T = 2000, ..., 2003 \tag{6}$$

The exclusion restriction we posit is that the disbandment of TUSS was not associated with the shocks to the local business climate. Particularly, we argue that abolishing of TUSS did not stem from TUSS being unsuccessful. E.g., the development of "Moscow-City" International Business Center continued but outside of the formal framework of TUSS. Similarly, "Zelenogradski" special economic zone lasted until 2006. Notably, 2002-2003 was the period when the federal administrative reform started, which was aimed at streamlining and centralizing the government structure. In this regard, the abolition of TUSS is likely to be a result of the general shift in administrative policy in the country rather than the response to the local business conditions at the TUSS level.[15] Therefore, we would argue that removal of TUSS resulted in exogenous changes in the local supply of government officials without an accompanying change in local business conditions.

---

[14] In total there were 118 zip codes (out of the total of more than 1500 zip codes in Moscow) located in the districts where TUSS were created.

[15] Note that our empirical analysis below includes firm-level (and hence TUSS-level) fixed effects, therefore any permanent differences in business conditions (which might affect firm performance) between TUSS related vs non-related areas are accounted for. What we require is that there are no differential changes in business conditions for firms in TUSS vs non-TUSS areas during those reorganizations.

3.2.2. Empirical specification

To estimate the causal effect of an endogenous binary explanatory variable (i.e., hiring an ex-top-level government official) on linear outcomes (i.e., tax evasion, (log) reported incomes, and car values) we follow the three-step procedure described in Wooldridge (2010). Namely, we consider the following model with an endogenous indicator variable for hiring an ex-top-level government official:

$$Y_{i,t} = f_{j(i,t)} + \phi_t + \beta D_{j(i,t),t} + \gamma X_{i,t} + \delta \mathbf{S}_{j(i,t),t} + \epsilon_{i,t} \tag{7a}$$

$$D_{j(i,t),t} = 1(D^*_{j(i,t),t} > 0) \tag{7b}$$

$$D^*_{j(i,t),t} = \alpha_Z \beta_Z^T Z^T_{j(i,t),t} + \gamma_Z X_{i,t} + \delta \mathbf{S}_{j(i,t),t} - u^Z_{i,t} \tag{7c}$$

Here $Y_{i,t}$ is an outcome of interest for individual i working in firm $j(i,t)$ in period t: logarithms of reported income, car values, and hidden earnings measure proxied by income car values gap. $D_{j,t}$ is an indicator variable for a firm j to employ an ex-top-level government official in period t. We treat this variable as endogenous and model it on the basis of a latent index, $D^*_{j,t}$, with an exclusion restriction that reorganizations of local government in the same zip code as the firm j in year t ($Z^T_{j,t}$) affect only firms propensity to hire a top-level government official but does not directly enter the empirical outcome of interest equation (7a).

We start by estimating the selection model (7b, 7c) via probit and construct predicted probabilities to hire an ex-top-level government official:

$$\widehat{D}_{j,t} = \Phi(\hat{\alpha}_Z + \hat{\beta}^T_Z Z^T_{j,t} + \hat{\gamma}_Z X_{i,t} + \hat{\delta} \mathbf{S}_{j(i,t),t}), \tag{8}$$

where $\hat{\alpha}_Z$, $\hat{\beta}^T_Z$, $\hat{\gamma}_Z$, and $\hat{\delta}$ are probit estimates of selection equation (7c) and $\Phi(\cdot)$ is c.d.f. of standard normal distribution. We then estimate linear outcome regression equation (7a) by regular two-stage-least squares using those predicted probabilities from (8) as an instrument for the binary endogenous variable $D_{j,t}$. The advantage of this approach is that this model is robust to

misspecification of the functional form in empirical model (7a,b,c). Additionally, the fact that selection model coefficients are estimated does not affect asymptotic properties of 2SLS, hence no correction of standard errors is required.[16]

3.2.2. Estimation results

Estimation results from this approach are presented in Table 3. The results are fully consistent with the OLS results and confirm that hiring of top-level government officials causes a reduction in reported incomes and an increase in actual incomes, which results in decreased transparency of the hiring firm employees who themselves never held any position in the government. The magnitude of all the effects is even higher than in the OLS specification, which confirms that these effects are not driven by the endogeneity of the hiring decisions. The first-stage F statistics is sufficiently large (16.73) which indicates that the results are unlikely to be affected by the weak instrument problem.

As discussed above, our instrument is based on the local-level reorganization in the Moscow government. The implicit assumption behind this strategy is that these reorganizations did not directly affect firms' ability to evade taxes, except through the impact on firms' propensity to recruit government officials. One potential concern with this approach could be that such reorganizations might be "too drastic" in nature and affect local tax law enforcement, which directly affects firms' ability to evade taxes. To make sure that our instrument is not picking up such shocks to local tax law enforcement, we re-estimated the empirical model (7a,b,c) while explicitly controlling in all three stages for the log of the total employee turnover in the respective

---

[16] See Wooldridge (2010) pp. 939-940. Another advantage of using fitted values from non-linear model as instruments is that if a non-linear model (such a probit) provides a better approximation to the underlying indicator variables generating process than the linear probability model then the resulting 2SLS on the basis of fitted values would be more efficient (Newey, 1990). See also Angrist and Pischke (2003) p. 191.

local tax office to which a given firm reports to. Estimation results are virtually unchanged (See Appendix Table A7.1).

Overall, we find that the results from the baseline OLS specification can be interpreted in a causal way, so that hiring of a top-level government official causes a reduction in transparency for the hiring company employees, with reported incomes going down and actual income going up. Moreover, the magnitudes of the effect in IV specification are larger than in OLS specification.

4. Results: Mechanisms

The results presented in the previous section indicate that hiring a former top-level government official leads to an increase in tax evasion by firms and that this effect can be interpreted in a causal way. This increase is driven both by a decrease in the reported taxable income and by an increase in the actual income, as proxied by the value of the cars owned by the employees. In this section we explore the mechanisms behind these effects. First, we study the distribution of tax evasion effects within the firm. In particular, we examine whether the benefits from tax evasion accrue only to firm's top management, or they are shared among a larger set of firm's employees. Second, we look for the changes in the firm compensation structure suggestive of tax evasion. Namely, we look at the likelihood that employees were paid the statutory minimum wage. Finally, we examine whether the effects persist if the former government employee leaves the firm.

4.1. Distribution of tax evasion effects within the firm

In the main text above we found that as a company hires a (top-level) government official company employees experience gains in their actual compensation (as proxied by the increased values of cars that they own) whereas their reported incomes decline. An important question in this regard is the distribution of such effects within the firm. Do those benefits from higher tax evasion accrue only to the top managers of the company or are more widely shared?

Distinguishing between these two stories is important since they have differential policy implications. In the former case, support for tax evasion practices would likely be limited to the top management, whereas in the latter it would have a broader ("grassroots") support among a wider set of company employees, in which case it would be more difficult to eliminate or curb those practices.

To probe these issues, we estimate specification (5) on different subsamples of company employees. We divide company employees into several groups. First, we look at the subsamples of newly hired employees vs. pre-existing employees (i.e., those continuing their employment with the firm). Second, we further divide subsample of pre-existing employees into three groups depending on their position in the firm's hierarchy of earnings, which we proxy by their percentile in the Employer Distribution of Earnings (EED) in the prior period.[17] Namely, we look at the lower-level employees (those below 50th percentile in previous year EED), higher-level employees (those above 50th percentile but below 90th percentile in previous year EEF), and top-managers (those above 90th percentile in previous year EED).

Table 4 contains estimation results for these employee groups. First, in Panel A we explore the effects of hiring a former top-level government official for newly hired employees (Panel A). We find that arrival of such an official drastically changes the contract of new hires into the firm. New hires in firms that have recruited a government official tend to get considerably lower reported incomes compared to the new hires in this same firm when the government official was not present (Column 2, Panel A).[18] One could argue, that the hiring of a government officials is associated with the firm's expanding its hiring at the bottom and hiring lower-skilled employees

---

[17] We, again, use the insight from Braguinsky, et al (2014) that while reported earnings are likely to be falsified, their relative rankings (at the firm-year level) are still likely to reflect the hierarchy of actual earnings within the firm.

[18] Note that in all specifications we include firm fixed effects, so the interpretation is that once a firm recruits a government official, it changes the compensation contracts offered to new hires.

(which would result in lower wages being offered). However, the patterns in car values of those new hires suggest the opposite effect (column 3, Panel A). Once the government official arrives, the firm tends to hire people with higher actual compensation (as proxied by more expensive cars owned), i.e., if anything, the pool of new hires is shifted towards more skilled employees.

The results for the sample of pre-existing employees are more muted in terms of magnitudes (and coefficient for reported incomes while negative and sizeable in economic sense is not statistically significant) (Panel B). However, those results hide an interesting heterogeneity depending on an employee's position within the firm's earnings hierarchy.[19]

We find that pre-existing employees positioned below 50th percentiles in EED in the prior year do not experience any changes: neither to their reported incomes nor to the car values (Panel C). However, the picture changes dramatically for other pre-existing employees. Employees positioned above 50th percentile but below 90th percentile in prior year EED experience a considerable gain in their car values (by almost 8 percent) while their reported incomes drop drastically (by 40 percent=exp(-0.513)-1) (Panel D). Top managers (those above 90th percentile) experience the similar changes, albeit with smaller magnitudes: their car values go up by 3.4 percent, while reported incomes drop by 13 percent (Panel E).

We also conducted instrumental variables estimation, using local-level government reorganizations as the source of exogenous variation in firms' propensity to employ a former government official using Wooldridge 3-step procedure outlined in Section 3.2 above. Instrumental variables estimation results (presented in Table 5) are qualitatively similar to our baseline results in Table 4, suggesting that these effects reflect causal relationship.

---

[19] To reiterate, we assume that, even though reported incomes can be falsified, the relative position of an employee within the overall distribution of earnings correctly reflects his/her position within the firm's chain of command.

As a robustness check we also performed estimation separately for different offices of Moscow local government. The results (presented in Appendix Tables A8.1-A8.4) show the similar effects with the expected variation in magnitudes depending on the importance of the government office: hires from the main Moscow mayor office has the strongest effect, while the hires from upravas have the smallest effect. In all cases, we find the same pattern: the effects are the strongest for the non-top management employees above the 50th percentile.

The absence of results for lower-level employees is likely to be driven by the fact that tax savings associated with cutting the reported compensation of these employees are likely to be quite modest. At the same time, cutting compensation of the top-management too drastically might be a less attractive strategy as well, since they might be subject to additional scrutiny by the tax authorities. This makes the compensation of employees positioned in the upper half of the earnings distribution (but still those below top management) the suitable targets for implementation of tax evasion schemes, as it provides the required savings on the tax obligations without attracting too much attention of the tax authorities. Similar reasoning can explain why the effect is stronger for the newly hired employees, who have no prior earnings with the firm, which could have been used as a potential enforcement benchmark by tax authorities.

At the same time, we find that the benefits in terms of higher *actual* compensations (as proxied by car values) accrue only for employees above the 50th percentile. One potential story could be that such employees are more productive and possess valuable human capital, which the top management of the firm tries to retain by sharing the benefits from increased tax evasion.[20]

---

[20] Interestingly, top management does benefit, but not as much as those employees. One could argue that at the top of firm's chain of command cars owned by the top management might not fully reflect their actual compensation benefits, e.g. companies might provide company-owned cars as personal vehicles to top management, which was a common practice in Russia at the time.

Overall, the results indicate that arrival of government official and the associated change in reported compensation practices benefits not only top management and the gains from tax evasion are shared around a wider set of employees, namely, new hires and pre-existing employees above the median in wage distribution within the firm. We find that tax evasion schemes, at least as they were implemented at the time, effectively aligned the interests of the top management and more productive employees.

4.2. Are government officials hired as top managers?

Above we found that it is not enough to look at top management to fully assess the tax evasion effects withing the firm. A related question is: Is it sufficient to look at hiring of former government employees at the level of top management? Is there a differential effect of hiring a former government official as a top manager as compared to hiring him/her as a lower-level employee?

To probe this, we define a dummy for whether the government official has been hired in the top management position, which we proxy by the government official being among the top 10 percent of the firm's employees.[21] Namely, we consider the following empirical specification (similar to (5) above):

$$Y_{i,t} = \beta_1 D_{j(i,t),t} + \beta_2 DTM_{j(i,t),t} + \gamma X_{i,t} + \delta \mathbf{S}_{j(i,t),t} + f_{j(i,t)} + \phi_t + \epsilon_{i,t} \qquad (9)$$

Here, as before, $Y_{i,t}$ is the outcome of interest for individual i in year t (reported income, car value etc.) and $D_{j(i,t),t}$ is a dummy for the firm j to employ a former (top-level) government in year t. $DTM_{j(i,t),t}$ is a dummy for whether this former government official was employed in the top-managerial position by the firm j. Given such definitions of variables, coefficient β_1 shows the

---

[21] Note that in all cases we look at top ex-government officials, i.e., those who were among top 10 percent highest paid employees in their government office.

baseline effect of hiring a former government official (i.e., the hire in a non-top-management position), while β_2 shows the additional effect of hiring government official as a top manager. As before, we estimate (9) for former government officials coming from any level of Moscow government, as well as divide by different branches of Moscow government.

Estimation results are presented in Table 6. They indicate that even hiring of a former Moscow government official to a non-managerial position has a significant (both statistically and economically) effect on tax evasion practices: reported incomes of firm employees decrease and car values increase when such government official is hired. On average, hiring government official at the level of top management did not have an additional effect. However, for some government offices (namely for the hires from the main Mayor office and department of Mayor office) there seems to be such an additional effect. These effects, while sizeable in economic sense, are smaller than the baseline effect (i.e., when the government official is hired not as top manager).

Since most of the literature considers only top management positions when measuring political connections, we estimate our results looking only at such cases (i.e. omitting $D_{j(i,t),t}$ in (9)). The results in this specification are smaller in magnitude than in the baseline specification reported in Table 3 (see Table A8.5) and sometimes statistically insignificant. Thus, ignoring cases in which former government officials take non-managerial positions leads to underestimation of the effect of political connections.

Taken together the findings in this and in the previous section highlight that in order to properly understand the effect of political connections it is not enough to look at hires "at the top" or outcomes only for top managers. It is really important to have information on all the employees of the firms, both to detect non-salient political connections and to identify distributional effects of establishing political connections.

4.3. Change in the wage structure: Hiring near the statutory minimum wage.

To provide evidence on the implementation of the tax evasion schemes we study changes in the wage structure of firms hiring former government officials. During the timeframe of our analysis, a common indicator of company tax evasion was payment of compensations close to the statutory Monthly Minimum Wage (MMW). The MMW at the time was set at very low levels (e.g., in 2000 it was equal to 83.5RUR, which is more than 25 times smaller than the average reported monthly wage in Russia for the same year, 2,200RUR). In this regard, having many employees in a company owning cars and yet being officially paid such small compensation could be used as a sign of rampant tax evasion.[22]

To probe this, we define an indicator variable, $DMW_{i,j,t}$, for a given individual i of firm j to have a monthly compensation below 1.1 times the MMW.[23] Since we have annual data on individual employee incomes, $I_{i,j,t}$, we construct the $DMW_{i,j,t}$ indicator as:

$$DMW_{i,j,t} = 1\big(I_{i,j,t} < 1.1 * 12 * MMW_t\big), \tag{9}$$

We then relate this variable, $DMW_{i,j,t}$, to the indicator for the firm j to employ a former top-level Moscow government official in year t, $D_{j,t}$. Namely, we consider the following empirical specification:

$$DMW_{i,j,t} = \beta D_{j(i,t),t} + \gamma X_{i,t} + \delta \mathbf{S}_{j(i,t),t} + \big(f_{j(i,t)}\big) + \phi_t + \epsilon_{i,t} \tag{10}$$

---

[22] MMW of 83.5RUR is equivalent to $2.78 per month at the current exchange rate at the time, while the average wage of 2,200RUR is equivalent to $73 per month. See the data from Russia Government Statistical Agency: https://www.gks.ru/labor_market_employment_salaries (in Russian). For comparison, the price of gasoline at the time was around 10RUR ($0.33) per liter (https://www.gks.ru/free_doc/new_site/prices/potr/tab5-cen.htm). Given that we look at the subsample of car owners it is highly unlikely that anyone would be able to drive a car while actually receiving a compensation near the minimum wage, as such low compensation could buy less than 10 liters (2.4 gallons) of gasoline per month (without any money left to spend on food or other necessities).
[23] The results are robust to using alternative thresholds around MMW.

As in specification (5) in Section 3.1 above, we control for individual-level characteristics, $X_{i,t}$: age, age-squared, gender as well as firm size, $\mathbf{S}_{j(i,t),t}$, proxied by log number of employees. We include year fixed effects, ϕ_t, in all specifications and in some specifications we additionally include firm fixed effects, f_j.

Estimation results are presented in Table 7. In column 1, we use probit estimation, without firm fixed effects. In column 2, we consider linear probability model with firm-fixed effects. In column 3, in the context of linear probability model (with firm fixed effects) we treat the indicator for having a government official $D_{j(i,t),t}$ as endogenous using the local government reorganizations as the source of exogenous variation in firm's propensity to hire a top-level Moscow government official. We follow the same Wooldridge three-step estimation procedure as in Section 3.2 above.

Estimates for the sample of all employees (in Table 7, Panel A) exhibit the same common pattern across all the estimation approaches. Hiring an ex-government official makes it much more likely that the reported compensation of the company's employees will fall close to the lowest legally allowed amount, the MMW. Since specifications in columns 2 and 3 include firm fixed effects (i.e., use within firm variation), these estimates suggest that as a given company hires a former government official, the reported compensation of its employees is likely to fall all the way down to the MMW. Furthermore, in specification 3, where the Wooldridge three-step procedure is used, estimates have a causal interpretation.

Estimated coefficients are not only statistically significant but also imply effects of considerable magnitudes. The estimates from our preferred empirical specification, specification 3, suggest that the hiring of a government official increases the probability that a random employee from the hiring company will see his/her salary fall near the MMW threshold by 0.09.

We also estimated the effects separately for the newly-hired vs pre-existing employees in Panels B and C, respectively. We find that the effects are stronger for the new hires than for the pre-existing employees. Hiring a government official increases the probability of new hires being made near the minimum wage by 0.16-0.3.[24] It is worth contrasting this finding with our prior results in Table 4, which suggest that car values in the subsample of new-hires[25] increase by 14 percent when the government official is present at the company. The results are smaller (but still significant) in the subsample of pre-existing employees.[26]

Overall, we conclude that the hiring of a former top-level Moscow government official changes the compensation structure of the hiring firm in a way that is highly suggestive of increased tax evasion. Namely, once an ex-government official is hired, many existing company employees see their reported salaries decline to the lowest legally allowed amount.

To reiterate, the statutory minimum monthly wage rate (MMW) in Russia at the time was set at artificially low level. To put it in perspective, if one had to spend *all* of his/her MMW on gasoline alone, s/he would be able to buy only 10 liters (2.6 gallons) of regular gasoline. Therefore, observing somebody (especially a car-owner) receiving an MMW is likely to be a clear sign of rampant tax evasion. In fact, at the time, such arrangement (paying the MMW) was a widely known sign of tax evasion.

---

[24] Note that this finding shows the *differential* effect (i.e. the difference in the percentage of new hires near the minimum wage) for the firms with and without a government official. Note that in the models with firm fixed effects (columns (2) and (4)) the coefficient shows the change for the same firm in the fraction of employees receiving MMW when the government official is recruited by the firm.

[25] The subsamples of new-hires are comprised of different people in different periods, therefore this statement relates to the average characteristics of employees being hired.

[26] This is likely not surprising since it is much easier to set the compensation near the minimum wage level for the new hires, since they have no prior payment history with the company, whereas lowering existing employees' salary all the way to MMW might potentially alert tax authorities of some nefarious schemes going on.

4.3. Persistence of the Effect

Results presented in Section 3 above, indicate that recruitment of former top-level government officials drastically changes the tax evasion practices of the hiring firm. This might stem from the fact that former government officials provide their protection while they work in a firm or from the fact that they help to establish necessary connections within the government, which may persist even if these ex-officials leave the firm. To understand better the mechanisms behind this effect, it is important to establish what happens to a firm's tax evasion operations when the ex-government official in question moves out or retires from the firm.

To probe this, for each firm j in year t we define an indicator variable $DL_{j,t}$, which is equal to one if firm j in year t does not currently employ a top-level government official but did employ one in the previous years. We then assess whether the effects of having recruited a government official persists even after s/he leaves the company. In particular, we consider the following empirical specification:

$$Y_{i,t} = \beta_1 D_{j(i,t),t} + \beta_2 DL_{j(i,t),t} + \gamma X_{i,t} + \delta \mathbf{S}_{j(i,t),t} + f_{j(i,t)} + \phi_t + \epsilon_{i,t} \tag{11}$$

where $Y_{i,t}$ is the outcome of interest for individual i in year t and all other variables are the same as in the previous analysis of car values. The coefficients of interest are β_1 and β_2, where β_1 shows the effect of currently having a former top-level government official among company employees and β_2 shows an effect of employing a former top-level government official in the previous years but not having one at time t. If the effect of hiring a government official quickly evaporates once s/he leaves the firm, then we would expect β_2 to be close to zero. If there is persistence in those effects, we would expect β_2 to trace β_1 with, potentially, smaller magnitudes.

We find that, when we look at hired ex-government officials from the Moscow government as a whole, the effects on employee compensation seem to persist in magnitudes even once the ex-

official in question leaves the hiring firm (see Table 8). However, the effect on actual incomes (as proxied by car values) is essentially zero. These patterns, however, hide an interesting heterogeneity with respect to the type of office of the former Moscow government official. We find that having employed a top-level ex-government official from a Moscow Mayor central office has a very lasting impact, which survives even when the employee in question leaves the company. The corresponding effects for other branches of Moscow government are much less robust.

In the specifications in Table 8, we do not control for whether the firm has an ex-government official from other offices in the estimates for the particular government offices. There could potentially be a correlation in the hiring of former government officials from different branches of the Moscow government. For example, a firm might have hired two officials: one from the Mayor central office and another from a Department of the Mayor office. When one of them leaves, the other employee might still remain. To avoid conflating these effects, we re-estimated results controlling whether the firm has a government official from the Moscow government as a whole. Similar empirical patterns emerge: ex-official employees entering (and then leaving) from the Mayor Central office (positioned highest in the chain of command) has a more lasting impact, which persists even once they leave (see Table A2 in the Appendix).

Thus, the results indicate that the effects of hiring former top-level government officials on a firm's tax evasion tend to be persistent and are present once the official in question leaves the firm, but with an important caveat. This lasting effect is observed only for top-level government officials from a higher-tier office of the Moscow government, such as the Moscow Mayor central office. The effects tend to be more short-lived in the case of lower-level local governing bodies.

5. Additional Results and Robustness Checks

In this section we provide a number of additional results and robustness checks. First, we assess the heterogeneity of the effect with respect to ownership of the firms, comparing state-owned, private, and foreign-owned firms. Second, we look at the effect of hiring former officials from the federal government. Third, we extend the sample to all employees, rather than only car owners and examine, whether establishing political connections had an effect on owning a car as a measure of actual income. Finally, we provide a set of additional checks that confirm that our results are robust to alternative estimation techniques and are not driven by outliers.

5.1. Heterogeneity by Firm Ownership

To examine heterogeneity of effects with respect to firm ownership we use information from SPARK-Interfax database to classify companies into three groups by ownership: privately-owned domestic companies ("private firms"), state-owned establishments ("SOE"), and foreign-owned firms. We then re-estimate our main empirical specification (5) separately for these three groups of firms. We present both OLS and IV results in Appendix Table A3.

Both OLS and IV estimation results indicate that the hiring of a former Moscow top-level government official has a considerable effect on the tax evasion of private domestic firms. The effect works on both components of the hidden earnings measure: reported incomes of existing employees go down while values of cars go up. For the SOEs the effect is much weaker and is not statistically significant. However, due to the reduction in sample, the first-stage F statistics are quite small, so these results might be not reliable. For foreign owned firms there is no evidence of increase in tax evasion in either OLS or IV specification. If anything, the direction of the effect has the opposite sign, suggesting an decrease in tax evasion when a former government official is hired.

The lack of increased tax evasion in the case of the foreign-owned firms is likely to reflect the fact that most of the foreign-owned firms in our sample come from the Western developed countries, where participation in dubious activities, even abroad, might be a punishable offence, in which case we do not expect any significant tax evasion to begin with (see Braguinsky and Mityakov, 2015).

Overall, the results indicate that an increase in tax evasion after hiring of a former government official is driven by the effects among private domestic firms and is not present for state-owned or foreign-owned firms.

5.2. Tax evasion and hires from the Federal Government

To see if similar effects are observed is former government officials come from the federal government, це consider the following Federal Government entities: Presidential Administration, Federal Security Service (FSS, a successor to KGB), and several Federal Ministries including: Ministry of International Trade, Ministry of Finance, Ministry of Internal Affairs (the ministry that deals with law enforcement within the country), Ministry of Justice, Ministry of Tax Collections (analogue to the IRS), and the Central Bank of Russia.

Similar to the analysis of the effect of hiring government officials from the city government, we construct indicator variables for the firm to employ a former Federal Government official from a particular federal entity or from any of them (see equations (1) and (2)). We then estimate a specification similar to (5) above to assess the relation between the hiring of an official from a Federal Government entity and reported incomes vs. car values of firm employees who never worked in any government entity themselves. Note that for Federal entities we lack the source of exogenous variation, so we have to limit the analysis to OLS specification.

Table A4 in the Appendix contains estimation results. We see similar patterns as for the hiring of ex-officials from the Moscow local government. Hiring from all levels of Federal government (Panel I) is associated with considerable increase in car values and decrease in reported incomes. The effects are highest in the case of hiring from law enforcement agencies/ministries: Federal Security Service (FSS) (as successor to KGB), Ministry of Internal Affairs (which oversees police departments), or Ministry of Justice (which handles the court system). Notably, the effects are smallest for the Central Bank and Ministry of Tax Collections, the latter being a pleasant surprise.

Overall, the impacts on firm-level tax evasion outcomes seem to be in line with relative importance and power of different entities of the Federal Government.

5.3. Evidence from Non-Car Owners

In the benchmark results we uses the Braguinsky and Mityakov (2015) measure of hidden earnings calculated on the basis of the gap between reported incomes and car values of firm employees. This approach naturally restricts us only to the subsample of people who actually own cars.

To show that hiring of a former top-level government official has an impact which is applicable to the firm as a whole, and not just to the subset of employees owning cars we re-estimate specification (5) for all Moscow firm employees using as outcomes reported incomes and an indicator variable for having a car. Estimation results are presented in Table A5 in the Appendix.

As in benchmark results we see that hiring of top-level government officials is associated with lower reported incomes of firm employees but a likely increased actual compensation as evidenced by a higher propensity to own a car. Notably, the effect on cars is significant, in both economic and statistical senses, only in the case of hiring from the more powerful entities of the

Moscow local government: Moscow Mayor central office, Departments of Mayor office and Moscow prefectures.

In this regard, we argue that the empirical effects of hiring top-level government officials we find above (i.e., decreased reported incomes and increased actual compensation) are likely to be applicable to all firm employees, not just to the sample of car owners.

5.4. Additional Robustness checks

We also considered estimation on subsamples of our data to ensure that our results are not driven by a few influential outlier observations. Specifically, we dropped the top 1 percent and bottom 1 percent of observations by reported incomes and car values[27] in our employee-level outcomes analysis (see Appendix Tables A6.1 and A6.2) and find the similar patterns as in our analysis in the main text. Further, we dropped small companies (i.e., those with fewer than 50 employees) to ensure our results are not driven by smaller "sham" companies specifically created for tax evasion purposes[28] (see Appendix Tables A6.3 and A6.4). In all cases, we find the same empirical pattern: the hiring of top-level government officials causes an increase in tax evasion practices of the hiring firm with reported incomes of the firms' employees going down and actual pay, as evidenced by an increased value of cars, going up as well as an increase in the amount of funds received from the Moscow government sources.

6. Conclusion

We show that hiring of former top-level government officials results in considerable increase in tax evasion by the hiring company. The firm's employees, who themselves were never employed

---

[27] Since incomes cannot be compared across firms, we drop the top 1 percent and bottom 1percent of employees within each firm, but used absolute cutoffs for car values.
[28] See Yakovlev (2001) and footnote 8 on page 8 for more details of actual tax evasion schemes involving "sham" companies.

by the government, see their *reported* incomes decline while their *actual* incomes increase, as proxied by the increase in the value of the cars those employees own. The effect is stronger if the government official comes from a more powerful office within the Moscow government chain of command.

Importantly, our employee-employer matched dataset allows us to study the distribution of tax evasion patterns within the firm. We find that "benefits" from increased tax evasion are widely shared within the firm. Notably, employees who benefit the most are those, who are in the upper half of the wage distribution within the firm, but still not in the top management (i.e. not in the upper 10% of the wage distribution). We argue that this might effectively align the interests of top management and more productive employees in favor of tax evasion activities. Therefore, such practices become deep-rooted as they receive support not only at the top but throughout the firm's chain of command, which may have important policy implications for initiatives aiming at fighting tax evasion.

References

Adhikari, A., Derashid, C., & Zhang, H. (2006). Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. *Journal of Accounting and Public policy*, 25(5), 574-595.

Alstadsæter, A., Johannesen, N., & Zucman, G. (2019). Tax evasion and inequality. *American Economic Review*, *109*(6), 2073-2103.

Amore, M.D. and Bennedsen, M., 2013. The value of local political connections in a low-corruption environment. *Journal of Financial Economics*, 110(2), pp.387-402.

Angrist, Joshua David, and Jörn-Steffen Pischke. 2009. *Mostly harmless econometrics: an empiricist's companion*. Princeton: Princeton University Press.

Altonji J. G., T. E. Elder and Ch. R. Taber (2005). Selection on Observed and Unobserved Variables: Assessing the Effectiveness of Catholic Schools. *Journal of Political Economy*, 113(1), pp. 151-184.

Bertrand, M., Burgess, R., Chawla, A., & Xu, G. (2018). The glittering prizes: Career incentives and bureaucrat performance. *The Review of Economic Studies*.

Borusyak, Kirill, Xavier Jaravel, and Jann Spiess (2021). "Revisiting Event Study Designs: Robust and Efficient Estimation," Working paper.

Braguinsky, S., Mityakov S., (2015). Foreign corporations and the culture of transparency: Evidence from Russian administrative data. *Journal of Financial Economics*.

Braguinsky, S., Mityakov, S., Liskovitch, A. (2014). Direct Estimation of Hidden Earnings: Evidence from Russian administrative data. *Journal of Law and Economics*, 57 (2), 281-319.

de Chaisemartin, C., and X. D'Haultfœuille (2018). Fuzzy Differences-in-differences. *Review of Economic Studies* 85(2): 999–1028.

Chernykh, L., Mityakov, S. (2017). Offshore schemes and tax evasion: The role of banks. *Journal of Financial Economics*, 126 (3), 516-542.

Cheng, L. (2018). Estimating the value of political connections in China: Evidence from sudden deaths of politically connected independent directors. Journal of Comparative Economics, 46(2), 495-514.

Chiburis, R. C., J. Das, M. Lokshin (2012). A practical comparison of the bivariate probit and linear IV estimators. *Economics Letters*, 117(3), 762-766.

Cingano, F., & Pinotti, P. (2013). Politicians at work: The private returns and social costs of political connections. *Journal of the European Economic Association*, 11(2), 433-465.

Claessens, S., Feijen, E., & Laeven, L. (2008). Political Connections and Preferential Access to Finance: The Role of Campaign Contributions. *Journal of Financial Economics*, 88(3), 554-580.

Dal Bo, E., Finan, F., & Rossi, M. A. (2013). Strengthening state capabilities: The role of financial incentives in the call to public service. The Quarterly Journal of Economics, 128(3), 1169-1218.

Do, Q. A., Lee, Y. T., & Nguyen, B. D. (2015). Political connections and firm value: Evidence from the regression discontinuity design of close gubernatorial elections. *CEPR Working paper.*

Evans, W. N., R. M. Schwab (1995). Finishing High School and Starting College: Do Catholic Schools Make a Difference? *The Quarterly Journal of Economics*, 110(4), pp. 941-974.

Faccio, M. (2 006). Politically connected firms. *American Economic Review*, *96*(1), 369-386.

Faccio, M., Masulis, R. W., & McConnell, J. J. (2006). Political connections and corporate bailouts. *The Journal of Finance*, *61*(6), 2597-2

Faccio, M., & Parsley, D. C. (2009). Sudden deaths: Taking stock of geographic ties. *Journal of Financial and Quantitative Analysis*, *44*(3), 683-718.

Ferguson, T., & Voth, H. J. (2008). Betting on Hitler—the value of political connections in Nazi Germany. *The Quarterly Journal of Economics*, *123*(1), 101-137.

Fisman, R. (2001). Estimating the value of political connections. *American economic review*, *91*(4), 1095-1102.

Fisman, R., & Wang, Y. (2015). The mortality cost of political connections. The Review of Economic Studies, 82(4), 1346-1382.

Goodman-Bacon, A. (2018), Difference-in-differences with variation in treatment timing. NBER Working paper 25018

Heckman, J.J. (1997). Instrumental Variables: A Study of Implicit Behavioral Assumptions Used in Making Program Evaluations. *The Journal of Human Resources*, Vol. 32, No. 3. pp. 441-462.

Heckman, J.J., Vytlacil, E.J. (2000). The relationship between treatment parameters within a latent variable framework. *Economics Letters* 66 (1), 33–39

Heckman, J.J., Urzua, S., Vytlacil, E.J. (2006). Understanding instrumental variables in models with essential heterogeneity. *The Review of Economics and Statistics*, 88(3): 389–432.

Imbens, G., J. Wooldridge. 2007. Control functions and related methods. 2007 WNE *NBER Summer Institute: What's new in Econometrics?*

Khwaja, A. I., & Mian, A. (2005). Do lenders favor politically connected firms? Rent provision in an emerging financial market.*The Quarterly Journal of Economics*,*120*(4),1371-1411.

Li, H., Meng, L., Wang, Q., & Zhou, L. A. (2008). Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of Development Economics*, *87*(2), 283-299.

Mironov, M., and Zhuravskaya, E. (2016) Corruption in Procurement and the Political Cycle in Tunneling: Evidence from Financial Transactions Data. *American Economic Journal: Economic Policy*, 8(2): 287–321.

Nguyen, B. D., & Nielsen, K. M. (2010). The value of independent directors: Evidence from sudden deaths. *Journal of Financial Economics*, *98*(3), 550-567.

Newey, Whitney K (1990) "Semiparametric efficiency bounds." *Journal of Applied Econometrics* 5. 99-135.

Rijkers, B., Baghdadi, L., & Raballand, G. (2015). Political Connections and Tariff Evasion Evidence from Tunisia. *The World Bank Economic Review*, 31(2), 459-482.

Slemrod, J. (2007). Cheating ourselves: The economics of tax evasion. *Journal of Economic Perspectives*, *21*(1), 25-48.

Todd, P. (2001). Estimation of Limited Dependent Variable Models with Dummy Endogenous Regressors: Simple Strategies for Empirical Practice: Comment. *Journal of Business & Economic Statistics* 19(1), pp. 25-27.

Sun, L., and Abraham, S. (forthcoming), "Estimating dynamic treatment effects in event studies with heterogeneous treatment effects," *Journal of Econometrics*.

Wooldridge, Jeffrey M. 2010. "Econometric Analysis of Cross Section and Panel Data," MIT Press Books, The MIT Press.

Xu, G., Bertrand, M., & Burgess, R. (2018). Social Proximity and Bureaucrat Performance: Evidence from India, *NBER Working paper*.

Yakovlev, A., (2001). 'Black cash' tax evasion in Russia: its forms, incentives and consequences at firm level. *Europe-Asia Studies* 53(1), 33-55.

Table 1: Summary Statistics for Employee-Employer Matched Dataset.

Variable	Obs	Mean	Std. Dev.	Min	Max
Employee transparency	680,984	-16.766	2.603	-35.014	-8.869
Log reported incomes	680,984	6.559	1.382	2.853	11.512
Log car value	680,984	8.164	0.795	7.090	14.303
Top ex-government officials in the company dummy (All offices)	680,984	0.028	0.165	0.000	1.000
Top ex-government officials in the company dummy (Main Mayor office)	680,984	0.015	0.120	0.000	1.000
Top ex-government officials in the company dummy (Departments of Mayor office)	680,984	0.015	0.123	0.000	1.000
Top ex-government officials in the company dummy (prefectures)	680,984	0.015	0.120	0.000	1.000
Top ex-government officials in the company dummy (Upravas)	680,984	0.021	0.145	0.000	1.000
1(Reported income<1.1*minimum wage)	680,984	0.033	0.179	0.000	1.000
TUSS dummy	313,593	0.164	0.370	0.000	1.000

Notes: Sample includes all employee-employer observations over 2000-2003 from Braguinsky and Mityakov (2015) employee-employer matched dataset for all Moscow-based companies. Government employees are excluded from the sample. Employees without car values and with incomes exceeding $100,000 per year are excluded. Employee transparency is Braguinsky et al (2014) (log of) reported-incomes-car-values-gap. "Government officials in the company dummies" are dummies for the company to employ a former official from a particular office in Moscow government. Top government officials are defined as those from top 10 percent highest paid government officials in a given government office. TUSS dummy is defined as dummy for the firm to be located in the same 6-digit zip code as one of the TUSS (Territorial Units with Special Status).

Table 2: Effect of Hiring Ex-Government Officials. OLS Specification.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Movers from any Moscow gov-t office			*Panel B: Movers from Main Mayor office*			*Panel C: Movers from departments of Mayor office*		
Top Ex-government	-0.702*	-0.438*	0.092**	-1.370***	-0.889***	0.168***	-1.197***	-0.815***	0.134***
Official dummy	(0.369)	(0.253)	(0.041)	(0.268)	(0.191)	(0.029)	(0.346)	(0.212)	(0.048)
Observations	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846
R-squared	0.409	0.663	0.308	0.410	0.664	0.308	0.410	0.664	0.308
	Panel D: Movers from Moscow prefectures			*Panel E: Movers from Moscow upravas*					
Top Ex-government	-1.345***	-0.835***	0.179***	-0.895**	-0.567**	0.115***			
Official dummy	(0.272)	(0.220)	(0.020)	(0.407)	(0.281)	(0.044)			
Observations	679,846	679,846	679,846	679,846	679,846	679,846			
	0.410	0.664	0.308	0.410	0.664	0.308			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former government official from a particular Moscow government office. Panels A, B, C, D, and E show the results for government officials who used to work in Any level of Moscow government, Main Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas, respectively. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table 3: Effect of Hiring Ex-Government Officials. IV Specification.

	(1)	(2)	(3)	(4)	(5)	(6)
	Transparency	Log income	Log car	Transparency	Log income	Log car
Top ex-government official dummy	-2.285***	-1.129*	0.405***	-1.430***	-1.024***	0.142***
	(0.719)	(0.597)	(0.054)	(0.177)	(0.128)	(0.026)
Observations	313,249	313,249	313,249	284,991	284,991	284,991
First stage F statistic	16.73	16.73	16.73	16.73	16.73	16.73
Firm FE	No	No	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Log # firm employees	Yes	Yes	Yes	Yes	Yes	Yes
Individual-level controls: Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by Wooldridge 3-step procedure where "Ex-government official dummy (top 10%)" is treated as endogenous variable. Fitted values from probit regression of treatment dummy "Ex-government official dummy (top 10%)" are used as (linear) instruments as in Wooldridge (2010) Procedure 21.1. TUSS dummies interacted with year fixed effects are included in the probit estimation for the treatment dummy but is excluded from the second stage of 2SLS regression. TUSS dummy is defined as dummy for the firm to be located in the same 6-digit zip code as one of the TUSS (Territorial Units with Special Status). Year fixed effects are included in all specifications, in addition specifications 4-6 include firm-level fixed effects. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table 4: Distribution of tax evasion effects within the firm.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: New hires			*Panel B: Pre-existing employees*			*Panel C: Pre-existing employees below 50th percentile*		
Top Ex-government	-0.876***	-0.460***	0.146***	-0.362**	-0.195	0.058***	-0.025	0.014	0.014
Official dummy	(0.236)	(0.176)	(0.041)	(0.165)	(0.122)	(0.018)	(0.130)	(0.088)	(0.022)
Observations	100,860	100,860	100,860	409,385	409,385	409,385	69,512	69,512	69,512
R-squared	0.355	0.623	0.285	0.393	0.689	0.276	0.363	0.671	0.282
	Panel D: Pre-existing employees above 50th percentile and below 90th percentile			*Panel E: Pre-existing employees above 90th percentile*					
Top Ex-government	-0.732**	-0.513*	0.077***	-0.239***	-0.143*	0.034*			
Official dummy	(0.357)	(0.293)	(0.025)	(0.076)	(0.084)	(0.020)			
Observations	189,534	189,534	189,534	115,255	115,255	115,255			
	0.422	0.803	0.295	0.563	0.850	0.450			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Sample in Panel A is restricted to newly hired employees. Sample in Panel B/C/D/E is restricted to employees continuing their employment with the company. Additionally in Panel C/D/E sample is restricted to employees who were positions below 50th percentile/above 50th but below 90th percentile/above 90th percentile in the prior year employer-level earnings distribution. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table 5: Distribution of tax evasion effects within the firm. 3-step Wooldridge IV procedure.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: New hires			*Panel B: Pre-existing employees*			*Panel C: Pre-existing employees below 50th percentile*		
Top Ex-government	-4.233***	-3.088***	0.401*	-0.680***	-0.454***	0.079***	0.530	0.451	-0.028
Official dummy	(1.011)	(0.560)	(0.214)	(0.146)	(0.099)	(0.026)	(0.719)	(0.618)	(0.176)
Observations	47,466	47,466	47,466	220,472	220,472	220,472	30,101	30,101	30,101
First-stage F	4.781	4.781	4.781	23.15	23.15	23.15	6.901	6.901	6.901
	Panel D: Pre-existing employees above 50th percentile and below 90th percentile			*Panel E: Pre-existing employees above 90th percentile*					
Top Ex-government	-1.477***	-1.163***	0.110***	-0.479***	-0.395***	0.029			
Official dummy	(0.308)	(0.273)	(0.032)	(0.090)	(0.096)	(0.035)			
Observations	103,874	103,874	103,874	67,713	67,713	67,713			
First-stage F	18.56	18.56	18.56	49.10	49.10	49.10			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Sample in Panel A is restricted to newly hired employees. Sample in Panel B/C/D/E is restricted to employees continuing their employment with the company. Additionally in Panel C/D/E sample is restricted to employees who were positions below 50th percentile/above 50th but below 90th percentile/above 90th percentile in the prior year employer-level earnings distribution. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by Wooldridge 3-step procedure where "Ex-government official dummy (top 10%)" is treated as endogenous variable. Fitted values from probit regression of treatment dummy "Ex-government official dummy (top 10%)" are used as (linear) instruments as in Wooldridge (2010) Procedure 21.1. TUSS dummies interacted with year fixed effects are included in the probit estimation for the treatment dummy but is excluded from the second stage of 2SLS regression. TUSS dummy is defined as dummy for the firm to be located in the same 6-digit zip code as one of the TUSS (Territorial Units with Special Status). Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table 6: Heterogeneity by top ex-government official position within the hiring firm.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Movers from any Moscow gov-t office			*Panel B: Movers from Main Mayor office*			*Panel C: Movers from departments of Mayor office*		
Top Ex-government official in any position	-0.577**	-0.358*	0.077**	-1.110***	-0.683***	0.149***	-0.880***	-0.621***	0.091**
	(0.273)	(0.190)	(0.030)	(0.201)	(0.152)	(0.020)	(0.245)	(0.151)	(0.039)
Official in a managerial position at the firm	-0.229	-0.147	0.029	-0.465**	-0.368***	0.034	-0.444***	-0.271***	0.061**
	(0.172)	(0.121)	(0.021)	(0.190)	(0.119)	(0.027)	(0.155)	(0.093)	(0.028)
Observations	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846
R-squared	0.410	0.663	0.308	0.410	0.664	0.308	0.410	0.664	0.308
	Panel D: Movers from Moscow prefectures			*Panel E: Movers from Moscow upravas*					
Top Ex-government official in any position	-1.349***	-0.838***	0.179***	-0.646**	-0.411**	0.082***			
	(0.268)	(0.217)	(0.020)	(0.265)	(0.191)	(0.027)			
Official in managerial position at the firm	0.263	0.212	-0.018	-0.512*	-0.319	0.068**			
	(0.169)	(0.141)	(0.019)	(0.300)	(0.216)	(0.031)			
Observations	679,846	679,846	679,846	679,846	679,846	679,846			
	0.410	0.664	0.308	0.410	0.664	0.308			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy in any position" is an indicator for the company that employs a given individual to also employ a former government official from a particular Moscow government office in any position within the firm. Panels A, B, C, D, and E show the results for government officials who used to work in Any level of Moscow government, Main Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas, respectively. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. "Official in managerial position" is a dummy for whether the government official is employed in top managerial position within the firm. Top managerial position is defined as position with reported incomes in the top 10 percent of reported earnings distribution within the hiring firm. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table 7: Hiring near the Minimum Wage.

	(1)	(2)	(3)	(4)
Dependent variable: 1(annual reported income<1.1*12*monthly minimum wage)				
Panel A: All employees				
Top Ex-government	0.068**	0.045*	0.101***	0.096***
official dummy	(0.032)	(0.023)	(0.012)	(0.016)
Observations	679,846	679,846	313,249	284,991
First stage F			16.73	16.73
Panel B: Newly-hired employees				
Top Ex-government	0.166***	0.056	0.310***	0.308***
official dummy	(0.063)	(0.036)	(0.027)	(0.066)
Observations	136,725	136,725	73,888	47,466
First stage F			5.646	4.781
Panel C: Pre-existing employees				
Top Ex-government	0.042*	0.023*	0.052***	0.042***
official dummy	(0.022)	(0.012)	(0.008)	(0.010)
Observations	438,086	438,086	239,361	220,472
First stage F			23.30	23.15
Estimation	Probit	LPM-FE	LPM-IV	LPM-IV-FE
Firm FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. The sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. The sample in Panel B is further restricted to newly hired employees, while the sample in Panel C is restricted to employees continuing employment with the firm from the prior year(s). Dependent variable is a dummy for individual income to be below 1.1 times the minimum annual compensation (i.e. lower than 1.1*12*Minimum Monthly Wage, MMW) "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level Moscow government official. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. Specification 1 is estimated by Probit, with marginal effects being reported. Specification 2 is estimated by Linear probability model with firm fixed effects. Specification 3(4) is estimated by 2SLS (with firm fixed effects) where "Ex-government official dummy (top 10%)" is treated as endogenous variable. Fitted values from probit regression of treatment dummy "Ex-government official dummy (top 10%)" are used as (linear) instruments as in Wooldridge (2010) Procedure 21.1. TUSS dummies interacted with year fixed effects are included in the probit estimation for the treatment dummy but is excluded from the second stage of 2SLS regression. TUSS dummy is defined as dummy for the firm to be located in the same 6-digit zip code as one of the TUSS (Territorial Units with Special Status). Year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table 8: Persistence of the Effect.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Movers any Moscow gov-t office			*Panel B: Movers from Main Mayor office*			*Panel C: Movers from departments of Mayor office*		
Top Ex-government official dummy	-0.595*	-0.328*	0.093**	-1.314***	-0.755***	0.196***	-1.046***	-0.643***	0.141***
	(0.318)	(0.192)	(0.045)	(0.176)	(0.124)	(0.024)	(0.288)	(0.154)	(0.050)
Top Ex-government official WAS present	-0.372	-0.311*	0.021	-1.596***	-0.953***	0.225***	-0.630*	-0.277	0.124**
	(0.278)	(0.186)	(0.036)	(0.233)	(0.141)	(0.080)	(0.350)	(0.197)	(0.063)
Observations	533,733	533,733	533,733	533,733	533,733	533,733	533,733	533,733	533,733
R-squared	0.414	0.663	0.320	0.414	0.664	0.320	0.414	0.664	0.320
	Panel D: Movers from Moscow prefectures			*Panel E: Movers from Moscow upravas*					
Top Ex-government official dummy	-1.144***	-0.632***	0.179***	-0.814**	-0.447**	0.129***			
	(0.270)	(0.196)	(0.028)	(0.346)	(0.213)	(0.047)			
Top Ex-government official WAS present	-0.842***	-0.758***	0.029	-0.468	-0.367*	0.035			
	(0.290)	(0.215)	(0.065)	(0.318)	(0.220)	(0.036)			
Observations	533,733	533,733	533,733	533,733	533,733	533,733			
R-squared	0.414	0.664	0.320	0.414	0.664	0.320			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes			
Year FE	Yes	Yes	Yes	Yes	Yes	Yes			
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes			
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes			

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. "Top ex-government official WAS present" is a dummy for the company to have employed a former top-level government official in the previous years. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. "Ex-government official WAS present" is a dummy for the firm NOT to employ a top-level former government official currently, having employed one in the previous years. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Figures

Figure 1: Different event study estimators for log reported incomes and car values

Panel A: Log reported incomes
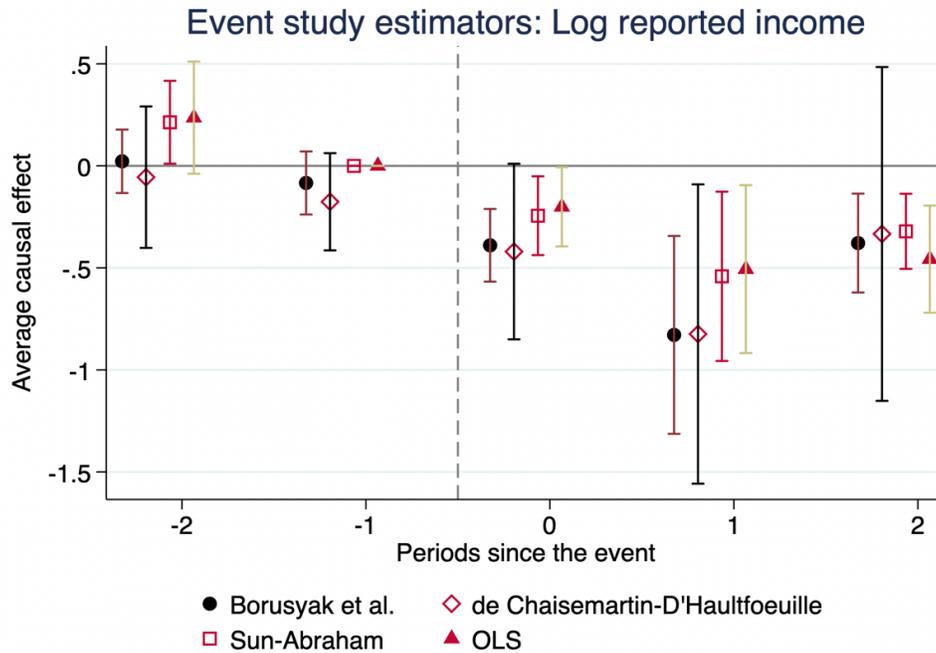
Panel B: log car values
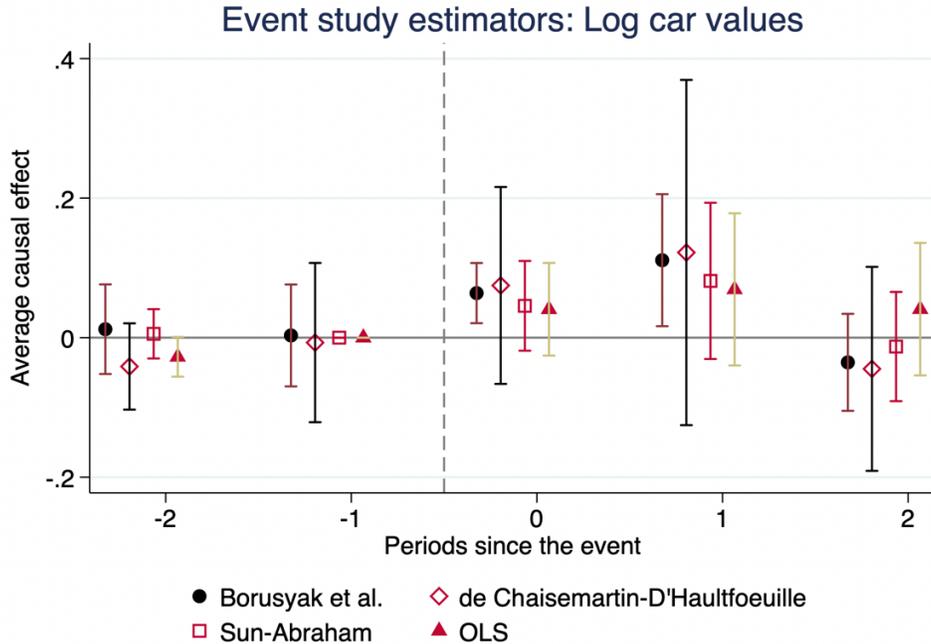
Notes: These figures report time horizon dummies from DiD estimation approaches of Borusyak et al (2021), de Chaisemartin, and D'Haultfœuille (2018), and Sun and Abraham (2021). Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government Standard error bands are based on errors clustered at the firm level.

Online Appendix

Appendix A. Measuring Tax Fraud from individual car values and reported incomes (based on Braguinsky et al (2014) and Braguinsky and Mityakov (2015)).

This approach to measuring income tax fraud at the level of individual bank starts from the observation that it is relatively easy to misreport earnings, but it is costly to drive an unregistered vehicle, since Moscow police routinely conduct traffic stops to check the paperwork. Unregistered vehicles may be impounded and can be recovered only after paying a fine and producing the registration document. This difference is the key to the following identification strategy, which employs administrative data on wages and car values to measure hidden earnings. Specifically, Braguinsky et al consider the following relation between reported and actual earnings:

$$\log E_{i,t}^R = \log E_{i,t}^* - T_{j(i,t),t} + \mathbf{g}'_1 \mathbf{X}_{i,t}^{(1)} + \phi_1(t) + u_{i,t}^{(1)}, \tag{A1}$$

Here $E^R_{i,t}$ and $E^*_{I,t}$ are reported and actual earnings of individual I in year t respectively. Reported earnings of individual I working in year t for a firm $j(I,t)$ differ from actual earnings depending on individual level controls (such as age, gender, position in the firm's hierarchy $\mathbf{X}_{i,t}^{(1)}$) as well as firm-level (time-varying) propensity to underreport incomes by a certain percentage ($T_{j,t}$) common for all employees of a given company in a given year. Firm-level tax evasion scores $T_{j,t}$ is the main variable of interest.

One cannot use regression (A1) to assess the level of hidden earnings in the company, since actual earnings E^* are not observed. In order to measure hidden earnings at the firm level Braguinsky et al (2014) bring additional information in the form of car values of employees. Namely, they consider the following relation between car values C and actual incomes E^*:

$$\log C_{i,t} = \lambda \log E_{i,t}^* + \mathbf{g}'_2 \mathbf{X}_{i,t}^{(2)} + \phi_2(t) + u_{i,t}^{(2)}, \tag{A2}$$

In order to measure hidden earnings $T_{j,t}$, Braguinsky et al combine equations (A1) and (A2) to get:

$$\frac{1}{\lambda}\log C_{i,t} - \log E_{i,t}^R = T_{j(i,t),t} + \mathbf{g}'\mathbf{X}_{i,t} + \phi(t) + u_{i,t}, \tag{A3}$$

Braguinsky et al employ the value of $\lambda=0.35$ which itself is estimated from subsample of employees of foreign multinationals from Western countries assuming that in those cases earnings are unlikely to be falsified and, thus, $\lambda=0.35$ can be estimated on this subsample using specification given in equation (A2).

In our analysis we assess how hidden earnings are related to firm's hiring of government officials so we use the following regression

$$\frac{1}{\lambda}\log C_{i,t} - \log E_{i,t}^R = \beta D_{j(i,t),t} + \mathbf{g}'\mathbf{X}_{i,t} + \phi(t) + u_{i,t}, \tag{A4}$$

where $D_{j(i,t),t}$ is a dummy variable for the company j to employ a former government official in period t.

Appendix B. Additional Tables.

Table A1: Alternative Difference in difference estimators

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Log income	*Log car value*	*Log income*	*Log car value*	*Log income*	*Log car value*	*Log income*	*Log car value*
Period 2	-0.3783	-0.0354	-0.3335	-0.0448	-0.3208	-0.0127	-0.4571	0.0409
	(0.1236)	(0.0354)	(0.3498)	(0.0745)	(0.0938)	(0.0399)	(0.1339)	(0.0484)
Period 1	-0.8284	0.1110	-0.8241	0.1220	-0.5412	0.0814	-0.5058	0.0692
	(0.2473)	(0.0482)	(0.4109)	(0.1262)	(0.2116)	(0.0571)	(0.2099)	(0.0556)
Period 0	-0.3892	0.0638	-0.4200	0.0748	-0.2442	0.0456	-0.2006	0.0407
	(0.0908)	(0.0219)	(0.2152)	(0.0720)	(0.0985)	(0.0328)	(0.0989)	(0.0338)
Period -1	-0.0838	0.0032	-0.1758	-0.0071	0.0000	0.0000	0.0000	0.0000
	(0.0788)	(0.0372)	(0.1427)	(0.0582)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Period -2	0.0224	0.0121	-0.0554	-0.0413	0.2137	0.0055	0.2363	-0.0274
	(0.0793)	(0.0327)	(0.1596)	(0.0315)	(0.1036)	(0.01803)	(0.1402)	(0.0145)
Estimation approach	Borusyak et al (2021)		de Chaisemartin and D'Haultfoeuille (2018)		Sun and Abraham (2021)		OLS-FE	
Common controls								
Firm size	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age2, gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: These coefficients are used in the construction of Figures 1A and 1B. Dependent variables are indicated in the top row. The sample includes all Moscow-based companies from Braguinsky and Mityakov (2015) sample over 1999-2003. Period "X" dummies (where X=-2,…,2) are time horizon dummies to have hired a top ex-government official "X" periods before (negative values are interpreted as periods *before* the hire). Top Ex-government official dummy" is an indicator for the company to employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Specifications (1) and (2) are estimated by Borusyak et al (2021) approach. Specifications (3) and (4) used de Chaisemartin and D'Haultfoeuille (2018) DiD estimator. Specifications (5) and (6) use Sun and Abraham (2021) estimator. Specifications (7) and (8) are estimated by regular two-way FE DiD. All specifications control for firm size (log # of employees), age, age-squared, and gender. Robust standard errors clustered at the firm level are reported in parentheses.

Table A2: Departures of Government Officials from The Company by Departments.

	(1)	(2)	(3)	(4)	(5)	(6)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Main Mayor office			*Panel B: Departments of Mayor office*		
Top Ex-government dummy	-1.227***	-0.771***	0.159***	-0.961***	-0.697***	0.092*
	(0.198)	(0.147)	(0.028)	(0.274)	(0.161)	(0.048)
Top Ex-government WAS present	-1.581***	-0.956***	0.219***	-0.618*	-0.285	0.117**
	(0.226)	(0.141)	(0.075)	(0.343)	(0.197)	(0.058)
Any office government official	-0.026	0.004	0.010*	-0.093	0.059	0.053***
	(0.034)	(0.024)	(0.006)	(0.077)	(0.070)	(0.017)
Observations	-0.090	0.017	0.037**	533,733	533,733	533,733
R-squared	(0.081)	(0.075)	(0.015)	0.414	0.664	0.320
	Panel C: Moscow prefectures			*Panel D: Moscow upravas*		
Top Ex-government dummy	-1.033***	-0.612***	0.148***	-0.818**	-0.470**	0.122**
	(0.269)	(0.214)	(0.029)	(0.322)	(0.199)	(0.049)
Top Ex-government WAS present	-0.780***	-0.746***	0.012	-0.468	-0.366*	0.036
	(0.286)	(0.218)	(0.070)	(0.318)	(0.220)	(0.036)
Any office government official	-0.127	-0.024	0.036**	0.003	0.025	0.008
	(0.084)	(0.081)	(0.017)	(0.100)	(0.061)	(0.027)
Observations	533,733	533,733	533,733	533,733	533,733	533,733
R-squared	0.414	0.664	0.320	0.414	0.664	0.320
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy (top 10%)" is an indicator for the company to employ a person who used to work in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas and was positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. "Ex-government official WAS present" is a dummy for the firm to have employed top-level former government official. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A3: Heterogeneity by Firm Ownership.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
Subsample:	*Private firms*			*State-owned firms*			*Foreign-owned firms*		
			Panel A: OLS-FE						
Top Ex-government	-1.054***	-0.681***	0.131***	-0.075	0.004	0.027	0.665***	0.402	-0.092
official dummy	(0.373)	(0.257)	(0.041)	(0.076)	(0.044)	(0.017)	(0.135)	(0.276)	(0.069)
Observations	518,359	518,359	518,359	133,358	133,358	133,358	28,129	28,129	28,129
R-squared	0.448	0.686	0.348	0.180	0.463	0.107	0.392	0.721	0.247
			Panel B: IV-FE						
Top Ex-government	-1.504***	-1.043***	0.161***	-1.143	-1.096	0.016	1.077	0.171	-0.317
official dummy	(0.159)	(0.122)	(0.021)	(0.944)	(0.910)	(0.138)	(1.834)	(0.923)	(0.527)
Observations	212,155	212,155	212,155	60,991	60,991	60,991	11,845	11,845	11,845
First-stage F	41.11	41.11	41.11	1.409	1.409	1.409	5.535	5.535	5.535
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top Ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A4. Tax Evasion and The Hiring from Federal Government Entities.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Presidential administration			*Panel B: FSS*			*Panel C: Ministry of Economic Development*		
Top Ex-government	-0.983**	-0.655**	0.115**	-1.328***	-0.909***	0.146***	-1.124***	-0.751***	0.131***
official dummy	(0.402)	(0.256)	(0.053)	(0.064)	(0.039)	(0.010)	(0.153)	(0.129)	(0.011)
Observations	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846
R-squared	0.410	0.664	0.308	0.410	0.664	0.308	0.410	0.664	0.308
	Panel D: Ministry of Finance			*Panel E: Ministry of Justice*			*Panel F: Ministry of Tax Collections*		
Top Ex-government	-1.047**	-0.693**	0.124**	-1.236***	-0.835***	0.141***	0.023	0.276	0.089
official dummy	(0.429)	(0.272)	(0.058)	(0.067)	(0.059)	(0.012)	(0.379)	(0.187)	(0.069)
Observations	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846
R-squared	0.410	0.664	0.308	0.410	0.664	0.308	0.409	0.662	0.308
	Panel G: Ministry of Internal Affairs			*Panel H: Central Bank of Russia*			*Panel I: Federal all*		
Top Ex-government	-1.313***	-0.893***	0.147***	-0.595***	-0.263***	0.116***	-0.386***	-0.179***	0.073***
official dummy	(0.052)	(0.028)	(0.010)	(0.154)	(0.092)	(0.025)	(0.134)	(0.065)	(0.028)
Observations	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846
R-squared	0.410	0.664	0.308	0.409	0.663	0.308	0.409	0.663	0.308
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample coversyears 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former government official from a particular Moscow government office. Panels A, B, C, D, E, F, G,H show the results for government officials who used to work in respective federal governmental entities, while Panel I contains results for all Federal entities outlined in Panels A-H. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A5: Hiring of Government Officials Effect on Tax Evasion of The Company. Results Including People Not Owning Cars.

	(1)	(2)	(3)	(4)	(5)	(6)
	Log income	*1(Has car)*	*Log income*	*1(Has car)*	*Log income*	*1(Has car)*
	Movers from any Moscow gov-t office		*Movers from Main Mayor office*		*Movers from departments of Mayor office*	
Ex-government official	-0.257*	0.014	-0.664***	0.045***	-0.576***	0.035***
dummy (Top 10%)	(0.153)	(0.011)	(0.112)	(0.007)	(0.144)	(0.013)
Observations	9,396,751	9,396,751	9,396,751	9,396,751	9,396,751	9,396,751
R-squared	0.529	0.148	0.529	0.148	0.529	0.148
	Movers from Moscow prefectures		*Movers from Moscow upravas*			
Ex-government official	-0.609***	0.043***	-0.344**	0.015		
dummy (Top 10%)	(0.141)	(0.008)	(0.172)	(0.014)		
Observations	9,396,751	9,396,751	9,396,751	9,396,751		
R-squared	0.529	0.148	0.529	0.148		
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Observations from firms with fewer than 50 employees are dropped. Dependent variables are indicated in respective column headers. "Ex-government official dummy (top 10%)" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A6.1: Effect of Hiring Ex-Government Officials. OLS Specification. Top 1% And Bottom 1% Of Observations of Car Values and Incomes Dropped.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Movers any Moscow gov-t office			*Panel B: Movers from Main Mayor office*			*Panel C: Departments of Mayor office*		
Ex-government official	-0.679*	-0.440*	0.084*	-1.387***	-0.916***	0.165***	-1.207***	-0.833***	0.131***
dummy (Top 10%)	(0.385)	(0.262)	(0.043)	(0.281)	(0.198)	(0.031)	(0.359)	(0.223)	(0.049)
Observations	654,339	654,339	654,339	654,339	654,339	654,339	654,339	654,339	654,339
R-squared	0.412	0.656	0.304	0.413	0.657	0.304	0.413	0.657	0.304
	Panel D: Movers from prefectures			*Panel E: Movers from Moscow upravas*					
Ex-government official	-1.359***	-0.867***	0.172***	-0.875**	-0.572*	0.106**			
dummy (Top 10%)	(0.287)	(0.225)	(0.023)	(0.431)	(0.295)	(0.048)			
Observations	654,339	654,339	654,339	654,339	654,339	654,339			
R-squared	0.413	0.657	0.304	0.413	0.656	0.304			
Employer FE, Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age², Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Top and bottom 1% of observations on reported incomes and car values are dropped. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy (top 10%)" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. "Ex-government official own tax evasion score" is defined as average percentile of tax evasion scores of all ex-top level government officials when employed by the government. For each government official his own tax evasion score is defined as percentile of his Braguinsky Mityakov (2015) tax evasion measure within his government employer. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A6.2: Effect of Hiring Ex-Government Officials. Wooldridge 3-step Procedure. Top 1% And Bottom 1% Of Observations of Car Values and Incomes Dropped.

	(1) Transparency	(2) Log income	(3) Log cars	(4) Transparency	(5) Log income	(6) Log cars
Ex-government employee (top10 percent)	-2.315***	-1.242**	0.376***	-1.436***	-1.075***	0.126***
	(0.722)	(0.560)	(0.063)	(0.196)	(0.150)	(0.026)
Observations	301,737	301,737	301,737	273,916	273,916	273,916
First stage F statistic	15.73	15.73	15.73	16.26	16.26	16.26
Firm FE	No	No	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Log # firm employees	Yes	Yes	Yes	Yes	Yes	Yes
Individual-level controls: Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Top and bottom 1% of observations on reported incomes and car values are dropped. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy (top 10%)" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by Wooldridge 3-step procedure where "Ex-government official dummy (top 10%)" is treated as endogenous variable. Fitted values from probit regression of treatment dummy "Ex-government official dummy (top 10%)" are used as (linear) instruments as in Wooldridge (2010) Procedure 21.1. TUSS dummies interacted with year fixed effects are included in the probit estimation for the treatment dummy but is excluded from the second stage of 2SLS regression. TUSS dummy is defined as dummy for the firm to be located in the same 6-digit zip code as one of the TUSS (Territorial Units with Special Status). Year fixed effects are included in all specifications, in addition specifications 4-6 include firm-level fixed effects. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A6.3: Effect of Hiring Ex-Government Officials. OLS Specification. Observations from Companies with Fewer Than 50 Employees Dropped.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Movers any Moscow gov-t office			*Panel B: Movers from Main Mayor office*			*Panel C: Movers from departments of Mayor office*		
Ex-government official	-0.612**	-0.383*	0.080**	-1.227***	-0.802***	0.149***	-1.057***	-0.734***	0.113***
dummy (Top 10%)	(0.291)	(0.203)	(0.032)	(0.223)	(0.163)	(0.025)	(0.292)	(0.180)	(0.041)
Observations	429,240	429,240	429,240	429,240	429,240	429,240	429,240	429,240	429,240
R-squared	0.251	0.565	0.145	0.251	0.566	0.146	0.251	0.566	0.145
	Panel D: Movers from Moscow prefectures			*Panel E: Movers from Moscow upravas*					
Ex-government official	-1.217***	-0.752***	0.163***	-0.790**	-0.501**	0.101***			
dummy (Top 10%)	(0.219)	(0.186)	(0.015)	(0.328)	(0.231)	(0.035)			
Observations	429,240	429,240	429,240	429,240	429,240	429,240			
R-squared	0.251	0.566	0.146	0.251	0.565	0.146			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Observations from firms with fewer than 50 employees are dropped. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy (top 10%)" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. "Ex-government official own tax evasion score" is defined as average percentile of tax evasion scores of all ex-top level government officials when employed by the government. For each government official his own tax evasion score is defined as percentile of his Braguinsky Mityakov (2015) tax evasion measure within his government employer. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A6.4: Effect of Hiring Ex-Government Officials. Wooldridge 3-step Procedure. Observations from Companies with Fewer Than 50 Employees Dropped.

	(1) Transparency	(2) Log income	(3) Log cars	(4) Transparency	(5) Log income	(6) Log cars
Ex-government employee (top10 percent)	-1.203***	-0.464	0.258***	-1.274***	-0.964***	0.109***
	(0.321)	(0.327)	(0.042)	(0.200)	(0.154)	(0.028)
Observations	199,421	199,421	199,421	193,902	193,902	193,902
First stage F statistic	14.59	14.59	14.59	18.00	18.00	18.00
Firm FE	No	No	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Log # firm employees	Yes	Yes	Yes	Yes	Yes	Yes
Individual-level controls: Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Observations from firms with fewer than 50 employees are dropped. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy (top 10%)" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by Wooldridge 3-step procedure where "Ex-government official dummy (top 10%)" is treated as endogenous variable. Fitted values from probit regression of treatment dummy "Ex-government official dummy (top 10%)" are used as (linear) instruments as in Wooldridge (2010) Procedure 21.1. TUSS dummies interacted with year fixed effects are included in the probit estimation for the treatment dummy but is excluded from the second stage of 2SLS regression. TUSS dummy is defined as dummy for the firm to be located in the same 6-digit zip code as one of the TUSS (Territorial Units with Special Status). Year fixed effects are included in all specifications, in addition specifications 4-6 include firm-level fixed effects. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A7.1: Direction of Causality for Movers into The Company: Wooldridge 3-Step Procedure. Local Tax Office Turnover Included.

	(1) Transparency	(2) Log income	(3) Log cars	(4) Transparency	(5) Log income	(6) Log cars
Top Ex-government employee	-2.377***	-1.194*	0.414***	-1.422***	-1.015***	0.142***
	(0.734)	(0.614)	(0.055)	(0.194)	(0.151)	(0.024)
Observations	286,193	286,193	286,193	261,486	261,486	261,486
First stage F statistic	18.69	18.69	18.69	21.03	21.03	21.03
Firm FE	No	No	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Log # firm employees	Yes	Yes	Yes	Yes	Yes	Yes
Log local tax office turnover	Yes	Yes	Yes	Yes	Yes	Yes
Individual-level controls: Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Ex-government official dummy (top 10%)" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by Wooldridge 3-step procedure where "Ex-government official dummy (top 10%)" is treated as endogenous variable. Fitted values from probit regression of treatment dummy "Ex-government official dummy (top 10%)" are used as (linear) instruments as in Wooldridge (2010) Procedure 21.1. TUSS dummies interacted with year fixed effects are included in the probit estimation for the treatment dummy but is excluded from the second stage of 2SLS regression. TUSS dummy is defined as dummy for the firm to be located in the same 6-digit zip code as one of the TUSS (Territorial Units with Special Status). "Log local tax office turnover" (included but not reported) is the log of the number of newly hired plus the number of departed employees from the local tax office to which a given firm reports to. Year fixed effects are included in all specifications, in addition specifications 4-6 include firm-level fixed effects. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A8.1: Distribution of tax evasion effects within the firm. Hires from main mayor office

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: New hires			*Panel B: Pre-existing employees*			*Panel C: Pre-existing employees below 50th percentile*		
Top Ex-government official	-1.124*	-0.884**	0.084	-0.759***	-0.450***	0.108***	0.011	0.061	0.017
	(0.620)	(0.431)	(0.077)	(0.110)	(0.104)	(0.017)	(0.259)	(0.069)	(0.071)
Observations	100,860	100,860	100,860	409,385	409,385	409,385	69,512	69,512	69,512
R-squared	0.354	0.623	0.285	0.393	0.689	0.276	0.363	0.671	0.282
	Panel D: Pre-existing employees above 50th percentile and below 90th percentile			*Panel E: Pre-existing employees above 90th percentile*					
Top Ex-government official	-1.575***	-1.169***	0.142***	-0.368***	-0.258***	0.039			
	(0.266)	(0.248)	(0.014)	(0.090)	(0.070)	(0.038)			
Observations	189,534	189,534	189,534	115,255	115,255	115,255			
	0.423	0.805	0.295	0.563	0.850	0.450			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Sample in Panel A is restricted to newly hired employees. Sample in Panel B/C/D/E is restricted to employees continuing their employment with the company. Additionally in Panel C/D/E sample is restricted to employees who were positions below 50th percentile/above 50th but below 90th percentile/above 90th percentile in the prior year employer-level earnings distribution. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A8.2: Distribution of tax evasion effects within the firm. Hires from departments of mayor office

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: New hires			*Panel B: Pre-existing employees*			*Panel C: Pre-existing employees below 50th percentile*		
Top Ex-government official	-0.827*	-0.556**	0.095	-0.703***	-0.477***	0.079***	-0.207	-0.074	0.047
	(0.455)	(0.279)	(0.081)	(0.125)	(0.077)	(0.019)	(0.137)	(0.098)	(0.033)
Observations	100,860	100,860	100,860	409,385	409,385	409,385	69,512	69,512	69,512
R-squared	0.354	0.623	0.285	0.393	0.689	0.276	0.363	0.671	0.282
	Panel D: Pre-existing employees above 50th percentile and below 90th percentile			*Panel E: Pre-existing employees above 90th percentile*					
Top Ex-government official	-1.545***	-1.220***	0.114***	-0.302***	-0.295***	0.003			
	(0.257)	(0.193)	(0.026)	(0.076)	(0.060)	(0.019)			
Observations	189,534	189,534	189,534	115,255	115,255	115,255			
	0.423	0.805	0.295	0.563	0.850	0.450			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age², Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Sample in Panel A is restricted to newly hired employees. Sample in Panel B/C/D/E is restricted to employees continuing their employment with the company. Additionally in Panel C/D/E sample is restricted to employees who were positions below 50th percentile/above 50th but below 90th percentile/above 90th percentile in the prior year employer-level earnings distribution. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A8.3: Distribution of tax evasion effects within the firm. Hires from prefectures

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: New hires			*Panel B: Pre-existing employees*			*Panel C: Pre-existing employees below 50th percentile*		
Top Ex-government official	-1.096***	-0.595*	0.175***	-0.758***	-0.450***	0.108***	-0.394**	-0.058	0.118***
	(0.384)	(0.349)	(0.038)	(0.107)	(0.102)	(0.011)	(0.186)	(0.117)	(0.039)
Observations	100,860	100,860	100,860	409,385	409,385	409,385	69,512	69,512	69,512
R-squared	0.354	0.623	0.285	0.394	0.689	0.276	0.363	0.671	0.282
	Panel D: Pre-existing employees above 50th percentile and below 90th percentile			*Panel E: Pre-existing employees above 90th percentile*					
Top Ex-government official	-1.598***	-1.156***	0.155***	-0.307***	-0.273***	0.012			
	(0.266)	(0.267)	(0.016)	(0.064)	(0.058)	(0.017)			
Observations	189,534	189,534	189,534	115,255	115,255	115,255			
	0.423	0.805	0.295	0.563	0.850	0.450			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Sample in Panel A is restricted to newly hired employees. Sample in Panel B/C/D/E is restricted to employees continuing their employment with the company. Additionally in Panel C/D/E sample is restricted to employees who were positions below 50th percentile/above 50th but below 90th percentile/above 90th percentile in the prior year employer-level earnings distribution. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A8.4: Distribution of tax evasion effects within the firm. Hires from upravas

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: New hires			*Panel B: Pre-existing employees*			*Panel C: Pre-existing employees below 50th percentile*		
Top Ex-government official	-1.179***	-0.667***	0.179***	-0.451**	-0.255*	0.069***	-0.031	0.030	0.021
	(0.300)	(0.243)	(0.047)	(0.190)	(0.141)	(0.019)	(0.186)	(0.137)	(0.027)
Observations	100,860	100,860	100,860	409,385	409,385	409,385	69,512	69,512	69,512
R-squared	0.355	0.623	0.285	0.393	0.689	0.276	0.363	0.671	0.282
	Panel D: Pre-existing employees above 50th percentile and below 90th percentile			*Panel E: Pre-existing employees above 90th percentile*					
Top Ex-government official	-0.983**	-0.691**	0.102***	-0.211***	-0.142	0.024			
	(0.412)	(0.339)	(0.029)	(0.077)	(0.095)	(0.015)			
Observations	189,534	189,534	189,534	115,255	115,255	115,255			
	0.423	0.804	0.295	0.563	0.850	0.450			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy" is an indicator for the company that employs a given individual to also employ a former top-level government official. Government officials are defined as those working in Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. Sample in Panel A is restricted to newly hired employees. Sample in Panel B/C/D/E is restricted to employees continuing their employment with the company. Additionally in Panel C/D/E sample is restricted to employees who were positions below 50th percentile/above 50th but below 90th percentile/above 90th percentile in the prior year employer-level earnings distribution. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively.

Table A8.5. Looking only at hires at the top managerial position.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Transparency	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*	*Transparency*	*Log income*	*Log car*
	Panel A: Movers from any Moscow gov-t office			*Panel B: Movers from Main Mayor office*			*Panel C: Movers from departments of Mayor office*		
Official in managerial position at the firm	-0.485	-0.306	0.063	-0.935***	-0.658***	0.097***	-0.899**	-0.592**	0.107**
	(0.346)	(0.233)	(0.040)	(0.272)	(0.176)	(0.035)	(0.403)	(0.267)	(0.048)
Observations	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846	679,846
R-squared	0.409	0.663	0.308	0.410	0.664	0.308	0.410	0.664	0.308
	Panel D: Movers from Moscow prefectures			*Panel E: Movers from Moscow upravas*					
Official in managerial position at the firm	0.201	0.173	-0.010	-0.880*	-0.553*	0.114**			
	(0.180)	(0.144)	(0.022)	(0.464)	(0.322)	(0.050)			
Observations	679,846	679,846	679,846	679,846	679,846	679,846			
	0.409	0.662	0.308	0.410	0.663	0.308			
Employer FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Log # employees	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Age, Age^2, Gender	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Sample includes all employees with positive car holdings from Braguinsky and Mityakov (2015) sample. Sample covers years 1999-2003 and includes only individuals who themselves previously did not work for Moscow government. Dependent variables are indicated in respective column headers. Transparency is individual level gap between log of reported incomes and income elasticity adjusted log car values for a given employee, as defined in Braguinsky and Mityakov (2015). "Top ex-government official dummy in any position" is an indicator for the company that employs a given individual to also employ a former government official from a particular Moscow government office in any position within the firm. Panels A, B, C, D, and E show the results for government officials who used to work in Any level of Moscow government, Main Moscow mayor office, Departments of Moscow Mayor Office, Prefectures, and Upravas, respectively. Top-level government officials are defined as those positioned among top 10 percent of reported earnings distribution with their respective government employers in the year prior to their move. "Official in managerial position" is a dummy for whether the government official is employed in top managerial position within the firm. Top managerial position is defined as position with reported incomes in the top 10 percent of reported earnings distribution within the hiring firm. Individual level controls such as age, age-squared, and gender are included but not reported. Log number of company employees is included but not reported. All specifications are estimated by OLS-FE. Firm level fixed effects and year fixed effects are included in all specifications. Robust standard errors clustered at the firm level are reported in parentheses. ***, **, And * indicate statistical significance at 1%, 5%, and 10%, respectively