EDITED VOLUME

Networks and Institutions in Europe's Emerging Markets

Published: 16.09.2015

Reviewed by M.A. Jorge Felix Edited by M.A. Andrzej Klimczuk

The modern Western democracies face two major challenges: the pension systems and the financing of political campaigns. Almost all contemporary political and economic struggles revolve around these two issues. The first one is treated at length by the sociological and economic literature. The second, however, still lacks analysis because it contains an element that hinders its clarity: human relations. In other words, the relationship between politicians and business people, among bureaucrats and those who are dependent on the state or regulatory decisions. In this field, of course, not always impersonal decisions prevail [1].

Networks and Institutions in Europe's Emerging Markets is a contribution to expand the research on the topic and add a unique perspective. Roger Schoenman revisits both paradigmatic success stories and frequently cited laggards of political and economic reform in post-communist Europe between 1989 and 2005 by focusing on the neglected role of networks between firms and political parties. The author seeks to understand how the configuration of networks determined the institutional trajectories of post-socialist states.

His goal is to explain the role of networks and uncertainty in the emergence of "broadly distributive institutions" in the region. Schoenman defines institutions, in accordance with other authors, as "the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction" [2]. In his book, the author sets out for a comparative study between Poland, Bulgaria, and Romania. Why do networks among firms and between politicians and companies emerge? Why did a variation emerge in the types of networks and in relationships between the state and the economy? Moreover, what is the relationship between networks and institutional development? Schoenman quotes literature in comparative politics that point to the role of historical struggles, social dislocations, relational ties, and negotiated institutions as the source of autonomous state power.

The author is aware, of course, that during the first two decades of post-socialism, Poland lived under a very corrupt environment. His aim is to challenge the argument that the reason for Poland's success is the relatively rapid progress of privatization and economic reform. Schoenman argues that in Poland networks between economic and political elites have been a key component of robust economic development and the emergence of broadly distributive – as opposed to selective advantage – institutions.

"Broadly distributive institutions," according to Schoenman, are those that "distribute benefits to broad segments of the affected population, such as whole classes or types of actors" (p. 3). On the other hand, "selective advantage institutions" distribute benefits to some chosen companies, sectors, or parties. He argues that such institutions predominated in Bulgaria and Romania because the uncertainty for political and financial elites was lower than in Poland.

This great uncertainty, Schoenman shows, led elites to act collectively. "The irony of the so-called market reforms is that they provided the opportunity for entrepreneurs who realized the value of connections of old networks to create a new political and economic elite class," wrote Bruce Kogut, Sanford C. Bernstein Teacher (Columbia University) on the book cover. He highlights: "Schoenman's book transforms the well-known adage of the police investigator to 'follow the money' to 'follow the links' from one associate to the next." In short, Schoenman deconstructs the thesis that is widely accepted in the literature until now that sufficed market reforms are needed to create equal opportunities for everyone in the emerging capitalism.

In suggesting an alternative explanation for the success of Polish capitalism, Schoenman contributes to the debate and elaborates an academic answer to those always betting at the speed of market reform. With this view, he certainly enriches the academic discussions in class or in the field of political science. The author focuses on a theme that seemed settled by the bibliography of political science. Thus, the book examines why some post-socialist countries have developed broadly distributive institutions while others have not. The work consists of four parts (foundations; the role of networks; the role of uncertainty; bringing it together) divided into seven chapters. Schoenman starts with a crucial introduction to explain his point of view, reviews the relevant literature and illustrates it with real cases. In the first part, chapter 1 discusses the approaches to institution building. The most interesting here is the dialog with a vast literature in order to try to find a theoretical approach that also incorporates the untreated variable of networks and partisan political competition. The explored cases show that "when networks of business ownership and personnel are broad, larger coalitions were driven to imbue institutions with the power to regulate the market" (p. 29).

Chapter 2 deals with the role of networks in shaping firm conduct and interaction with political actors. This shows that when networks are broad, collective firm action increases. Schoenman is concerned about proving that networks form the institutional outcomes and not vice versa. In addition to family businesses, industries, and banks, Schoenman's analysis could explore more institutional investors (mutual funds, pension funds, etc.). These actors have quite a relevant weight in the contemporary capitalism. Institutional investors are increasingly acting as protagonists in the political networks and usually outweigh the influence of many banks.

In chapter 3, the author focuses on the formation of networks in the three cases in order to analyze and defines the distinct example of Poland. He focuses on the dominance of the financial sector (mainly banks) versus the productive sector. Schoenman concludes that the financial firms maintain far more ties when they dominate the economy. The highlight of this chapter is a map drawn from ownership networks, which he calls "who owns whom." According to Schoenman, that map shows the shape of the ownership networks and thus structures the incentives that firms have when organizing for collective action.

Chapter 4 concerns uncertainty and financing of political campaigns. The author states that uncertainty increases cooperation between parties and firms. Nevertheless, party financing networks vary significantly amongst the three countries.

Chapter 5 explores another type of network: the system of influence constructed out of the individual career paths of elite state bureaucrats developed in the post-socialist period. Schoenman demonstrates how political uncertainty interacts with the network breadth to structure human ties, in the form of career networks, between the state and the economy.

In chapter 6, the author presents his typology built after the analysis of the eleven countries surveyed (Albania, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak, Republic, and Slovenia). Schoenman identifies four types, depending on the level of uncertainty and the degree of the amplitude of networks between business and politics. The four types are defined as *concertation states, patronage states, captured states,* and *embedded corporatist states.* This chapter confirms, according to the author, the finding that in countries in which dramatic reform and institutional development are taking place simultaneously one tends to observe the emergence of broadly distributive institutions when uncertainty is higher and social networks are broader.

Schoenman, in the last chapter 7, meets his goal to question the dominant assertion, which gives greater weight to the agility of market reforms in building institutions in post-socialist countries. His three main findings are the following: (1) various network structures emerged across post-socialist countries, (2) broad networks raise the likelihood of collective action, and (3) broad networks combined with high uncertainty improve institutional development. According to Schoenman, this is counterintuitive, and in striking contrast to arguments in economics and political science, stating that strong social networks would hamper institutional autonomy, which would be instead reinforced by predictable, fast, and early reform.

These arguments are based on a long sociological tradition, which defends the importance of networks in generating institutional development.

Notes:

[1] For more information on networks and emerging democracies, I recommend reading the "theory of bureaucratic rings" formulated in 1975 by Fernando Henrique Cardoso. See F.H. Cardoso, *Autoritarismo e democratizaçao*, Rio de Janeiro: Paz e Terra, 1975, or F.H. Cardoso, *Charting a New Course: The Politics of Globalization and Social Transformation*. Edited and introduced by M.A. Font. Lanham, Maryland: Rowman & Littlefield, 2001.

[2] Douglass C. North. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, 1990.

���
Citation:
Jorge Felix: Review for: Roger Schoenman: Networks and Institutions in Europe's Emerging Markets, 2014, in:

https://www.pol-int.org/en/publications/networks-and-institutions-europes-emerging-markets#r3148.

https://www.pol-int.org/en/publications/networks-and-institutions-europes-emerging-markets?j5Q6rewycZ5HtUDXTWpx7UZE=1&r=3148