

Networks and Institutions in Europe's Emerging Markets

Do ties between political parties and businesses harm or benefit the development of market institutions? The post-communist transition offers an unparalleled opportunity to explore when and how networks linking the polity and the economy support the development of functional institutions. A quantitative and qualitative analysis covering eleven post-socialist countries combined with detailed case studies of Bulgaria, Poland, and Romania documents how the most successful post-communist countries are those in which dense networks link politicians and businesspeople, as long as politicians are constrained by intense political competition. The comparison of original network data sets shows how this combination allowed Poland to emerge with stable institutions. Bulgaria, marred by weak institutions, corruption, and violence, cautions us that in developing economies intense political competition alone is harmful in the absence of dense personal and ownership networks. Indeed, as Romania illustrates, networks are so critical that their weakness is not mitigated even by low political competition.

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CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

Cambridge University Press is part of the University of Cambridge.

It furthers the University's mission by disseminating knowledge in the pursuit of education, learning and research at the highest international levels of excellence.

www.cambridge.org

Information on this title: www.cambridge.org/9781107031340

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When citing this work, please include a reference to the DOI 10.1017/CBO9781139381628

First published 2014

Printed in the United Kingdom by Clays, St Ives plc

A catalogue record for this publication is available from the British Library

Library of Congress Cataloging-in-Publication Data

Schoenman, Roger.

Networks and institutions in Europe's emerging markets / Roger Schoenman.

pages cm – (Cambridge studies in comparative politics) 1. Business and politics—Europe, Eastern. 2. Business networks—Political aspects—Europe, Eastern. 3. Post-communism—Economic aspects—Europe, Eastern. 4. Institution building—Europe, Eastern. 5. Europe, Eastern—Economic policy. I. Title.

HD3616.E8523S36 2014

322'.30947—dc23 2013045299

ISBN 978-1-107-03134-0 Hardback

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