

Conclusion: political varieties of capitalism in emerging markets

What was hailed as a transition to democracy and markets over twenty years ago has turned out to be a long and arduous struggle on the path to develop effective institutions that can support economic development. This book began by observing that, after two decades of reform and two waves of European integration, a surprising diversity of relationships between economic and political actors is still evident in the post-communist world. Notably, countries such as Poland, which have been among the leaders of institutional development and economic growth, also display dense ties between the economy and the polity, while countries such as Romania and Bulgaria do not. The early literature on post-socialist reform viewed such ties between the polity and the economy as the source of poor progress on institutional development because powerful insiders hijacked reform agendas. I have observed a number of cases, however, in which the opposite seemed to be true. Armed with this puzzle, I set out to understand the conditions under which networks could support institutional development. At the core of this analysis is a desire to understand the conditions under which political and economic elites are able to use networks to act collectively.

A literature on the economic growth miracle that took place in east Asia in the 1990s offered tools to explore the role that networks play in structuring the choices that elites make. Scholarship on the developmental state in east Asia focused precisely on the powerful role that embeddedness played in helping political elites cooperate with business leaders, resulting in rapid growth. The case studies were mostly non-democratic countries, however, and the outcomes seemed heavily dependent on a special set of cultural circumstances and international political economy pressures. With few exceptions (Kang 2002), the east Asian “tigers” were seen as having internal cultural characteristics and external security pressures that made embedded elites work together and limited the abuse of embedded ties. These limiting factors were not present in post-socialism.

In contrast, one powerful limiting factor present in the transition countries was the extent of political uncertainty related to democratic elections. All the cases investigated here had regular electoral contests but different levels of competition. As culture and the international pressures of the post-war international system were the exogenous factor that limited pernicious collaboration in east Asia, so political uncertainty served as the factor that conditioned how networks were used in post-socialism.

I thus explored how the structure of network ties between the polity and the economy, together with the level of uncertainty, affect the ability of elites to engage in collective action. Different combinations of these two variables shape the incentives of political and economic elites to cooperate, resulting in different and specific patterns of institutional development. The pages that follow review the findings and discuss the implications of this argument for countries undergoing large-scale economic transformations.

THE IMPACT OF NETWORKS AND UNCERTAINTY

I argue that the different combinations of the structure of networks and the level of uncertainty determine the path of collective action that political and economic elites take. This shapes the trajectory of institutional development. Where narrow networks are combined with high levels of uncertainty, economic actors have the upper hand against political elites. Because economic elites have few incentives to forge long-term bargains with political elites, these countries have made very poor progress on institutional development. I label these *captured states*.

In *patronage states*, narrow networks and low levels of uncertainty allow political elites to dominate atomized economic actors. Similarly, few incentives exist for institutional development, as economic actors are poorly coordinated, and political actors do not need to be responsive to their demands.

Finally, in *concertation states*, broad networks link economic and political actors and lead them to take a long view in economic exchange. As a result, they create rules of the game that are broadly distributive.

FINDINGS

Key finding I: different network structures emerged across post-socialism

Through a survey of firm network structure and a comparison of firm networks in Bulgaria, Romania, and Poland, I have shown that different network structures emerged across the post-socialist world. Taking just the comparison of Poland, Romania, and Bulgaria, different owner types emerged as the organizing poles in each economy, as a result of the varying approaches to transformation outlined in Chapter 3. The Polish network of firms was

structured by the key role of banks, which came to own large numbers of firms through debt-to-equity swaps that were common during the early phase of transition. This resulted in a broad network with many ties between firms. The largest firms in both Romania and Bulgaria were, instead, organized around industrial firms and individual investors, creating much narrower networks.

Elite networks also took on different structures. In Poland, individuals shifted jobs often and between more sectors than did individuals in Romania. Although Bulgarians also shifted jobs often, they tended to have less diverse careers. As a result, the latter two cases had much narrower career networks.

Key finding II: broad networks raise the likelihood of collective action

Broader networks that include more heterogeneous agents also raise the incidence of collective action among firms. Instead of lobbying for themselves using insider channels, firms in countries in which networks broadly linked them were more likely to use business associations for political ends. In turn, in most cases they were also less likely to use private channels to parties or bureaucrats.

Key finding III: broad networks combined with high uncertainty improve institutional development

Where networks were broad and uncertainty was high, greater progress was made in institutional development. More progress was made in the reform of banking law. The development of competition policy and an authority that could monitor it also progressed much further. Finally, measures of the rule of law showed higher levels of performance. The development of institutions for the oversight of party finance – another particularly sensitive area of regulatory development – also developed further. On this last measure, none of the three, Poland, Romania, or Bulgaria, approaches an ideal level of oversight that would render it free of illicit activity. Poland made greater advances than the other two countries, however. Institutions of oversight were created when all three faced tremendous external pressure from the European Union to reduce levels of corruption. Yet Poland developed the most functional system. The empirical findings are summarized in Table 7.1.

The differing role of institutions of collective action described in Chapter 2, the varying role of inter-firm ties discussed in Chapter 3, the different combinations of uncertainty and network structure discussed in Chapter 4, and the stark differences in career patterns across countries described in Chapter 5 are all features of three distinct trajectories of institutional development that have emerged out of the rapidly developing market economies of post-socialist Europe. These three forms are the captured, patronage, and concertation states. Each of these orders is supported by a series of complementary institutions that emerged as solutions to the problem of uncertainty that business elites and politicians faced over the period of the transformation.

TABLE 7.1 *Summary of findings*

| Chapter | Findings | | | | | | | | | | | | |
|-----------------------------|--|-----------------------------|----------------------------|--------|---------|------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|------------------|-----------------|------------------|
| Chapter 2 | Ownership networks that are broad and include heterogeneous agents increase the incidence of business collective action. | | | | | | | | | | | | |
| Chapter 3 | Ownership networks have developed around different types of firms, and inter-firm ties create networks of sharply varying breadth. | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th></th> <th>Bulgaria</th> <th>Poland</th> <th>Romania</th> </tr> </thead> <tbody> <tr> <td>Network breadth</td> <td>Narrow inter-firm networks</td> <td>Broad inter-firm networks</td> <td>Narrow inter-firm networks</td> </tr> <tr> <td>Dominant owner</td> <td>Industrial firms</td> <td>Financial firms</td> <td>Industrial firms</td> </tr> </tbody> </table> | | Bulgaria | Poland | Romania | Network breadth | Narrow inter-firm networks | Broad inter-firm networks | Narrow inter-firm networks | Dominant owner | Industrial firms | Financial firms | Industrial firms |
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| Dominant owner | Industrial firms | Financial firms | Industrial firms | | | | | | | | | | |
| Chapter 4 | Party finance: stable firm–party alliances emerge when parties can make credible commitments to electoral bargains. Broad networks and high uncertainty make political parties accountable to electoral deals through monitoring and electoral competition. Narrow networks and low uncertainty weaken monitoring and the electoral mechanism. Narrow networks and high uncertainty make the future uncalculable, lowering the likelihood of credible commitments. | | | | | | | | | | | | |
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| | Weak party–firm alliances | Strong party–firm alliances | Weak party–firm alliances | | | | | | | | | | |
| Chapter 5 | Elite career networks: political uncertainty promotes mobility as elites are replaced after alternation in government. Network breadth determines the range of placements. The combination of these two factors determines the type of elite career paths and explains variance in the emergence of elite cooperation. | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th></th> <th>Bulgaria</th> <th>Poland</th> <th>Romania</th> </tr> </thead> <tbody> <tr> <td>Career mobility</td> <td>High</td> <td>High</td> <td>Low</td> </tr> <tr> <td>Career heterogeneity</td> <td>Low</td> <td>High</td> <td>Low</td> </tr> </tbody> </table> | | Bulgaria | Poland | Romania | Career mobility | High | High | Low | Career heterogeneity | Low | High | Low |
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| Career mobility | High | High | Low | | | | | | | | | | |
| Career heterogeneity | Low | High | Low | | | | | | | | | | |
| Chapter 6 | Country clusters perform differently on measures of institutional development. Concertation states have made the most progress on institutional reform. Captured states have made the least progress. Patronage states exhibit moderate progress. | | | | | | | | | | | | |

BROADER IMPLICATIONS

What insights and broader conclusions can be derived from the findings of this book? One goal of the book has been to shed light on the process of post-communist development and the critical role of both networks and democratic competition in it. One of the key lessons of the post-communist transformation is that networks provide a vital resource to economic and political actors during periods of rapid change. These networks can be utilized in a variety of ways depending on their structure and the constraints placed on them, however. As scholars such as Kang (2002) have pointed out in the context of non-democratic east Asian states, how ties between political and economic elites are put to use depends on the limitations facing these elites. If the arguments made in the preceding pages are convincing, then the central policy implications are to promote orderly political competition and support the development of networks both within the economy and between the state and business actors. The cases examined here illustrate the consequences of weak competition and sparse networks that took hold in some countries. Consequently, one wonders about the future for both the desirable and less desirable paths. Of particular concern is the question of the stability of the three paths – concertation, patronage, and captured states – identified here after the period 1990–2005 that is covered in this book. For the paths that generate poor outcomes of institutional development – captured and patronage – it is particularly important to ascertain if states eventually emerge from them, even if they do so slowly. It would also be useful, however, to ascertain if the networks that link parties and business in concertation states eventually give way to stable and “hardened” institutions. Is it the case that this arrangement, while important during the early phase of development and high levels of uncertainty, is displaced by more formal structures? Or do networks continue to play a role even when functioning institutions have emerged?

These questions can be considered in two different ways. First, we can examine changes that have taken place in the case studies after 2005, the end point of both the data and the case study research conducted for this book. Second, we can examine cases in other regions that might shed light on possible future developments.

Regional changes

Changes in the party system are one way that shifts out of a particular party–business alignment might come about. It is also possible that party system development will bring about a breakdown altogether of the network-based dynamic. Of particular concern are the concertation states, in which, I have argued, stable party–economy ties have supported post-communist development. It is worth considering how Poland has been affected by changes in the party system that began in 2005. At that time the dominant social division in post-socialist Poland began to shift from an anti-communist/post-communist cleavage to a new division between those who have benefited from reform and

those left behind. This shift brought the end of the left SLD and post-Solidarity coalition AWS and their seeming replacement with two new main center-right parties and a host of smaller partners.

It would be reasonable to expect that such a shift in the party system would have unsettled the dynamic that existed until 2005. This unsettling could result from the scrambling of existing networks linking politicians to business leaders, or from the nature of political competition having shifted. Both seemed likely with the emergence of the Law and Justice party (PiS), which formed a minority coalition government that lasted until 2007, and vocally attacked the business elite, called for an end to the Polish oligarchy's influence, and pledged to move the country into a "Fourth Republic" free of the corruption and cronyism of the post-communist period (Markowski 2008: 1056). Early elections in 2007 brought yet another new party, Civic Action (PO), to power. PO instead presented itself as an economically liberal party with conservative positions on social issues, and governed in coalition with the Polish Peasant Party. At the time of this writing, the PO-PSL coalition is still in power, having been returned to power in 2011.

Based on the election of 2007, Gwiazda (2009) argues that we may finally be seeing the settling of the party system. This remains a minority view, however, and others continue to view the system as unsettled. Szczerbiak (2012), for example, sees the first re-election of an incumbent government, in 2011, as a potential sign of stabilization, but points to the strong performance of a new anti-clerical liberal party, Palikot's Movement, as a sign of continued instability. Most scholars continue to classify Poland as a weakly institutionalized party system with high levels of volatility, poor party discipline, and high fractionalization (Lewis 2006; Markowski 2008). There is, consequently, no reason to believe that the level of political uncertainty has declined. On the other hand, Shabad and Slomczynski (2002) argue that Poland is in the process of developing career politicians, which would reinforce networks despite the emergence of new political parties.

There is little recent research on the connection of Polish political parties with the economy in the period after 2005. Despite the changes in the party system, available sources suggest that the ties between the state and the economy continue. Gwiazda (2008) finds that, following the emergence of new party organizations, party patronage is as extensive after the shift as it was before 2005. Specifically, she finds that PiS, elected on a strong anti-corruption platform, "was relentlessly involved in the central government and economy, [and,] in addition, it extracted resources from quangos. Moreover, the new Civil Service Law increased state politicization" (Gwiazda 2008: 821).

The dynamic underpinning the concertation state is also reinforced by the attitudes of business leaders. In a survey conducted in 2009 and 2010 in Poland, Hungary, and Germany, Bluhm, Martens, and Trappmann (2011: 1024–5) find that Polish managers in top firms have a preference for an "active role of state" and "alienation towards capitalistic principles of competition" combined with a disposition toward "collective regulation of social partners." Poland is exceptional

in that feelings of alienation from capitalist principles of competition are particularly strong among business leaders in large firms. These attitudes suggest that managers view the benefits of collectively binding rules as outweighing their costs and risks while also being skeptical of market rules. This is particularly striking because business leaders in Poland are mostly drawn from a new, young managerial elite that has replaced the older generation of managers. It is also worth noting that all the large entrepreneurs of the pre-2005 period survived the party system change unscathed. Together, these findings suggest that the Polish economy will continue to develop toward some hybrid form of market. This will likely be based on networks and collective organization continuing to play an important role despite the emergence of functioning institutions. And, given the generational replacement of managers that has already taken place, it will likely develop with support from managers who are skeptical of liberal capitalism and welcome the active intervention of the state and political parties. The adoption of earlier practices of patronage by PiS, a party that came to power with a pledge to wipe away the pathologies of post-communism, indicates that even a disruption as large as a party system shift has not moved Poland toward a less network-dependent and more institutionalized arrangement.

Bulgaria, a captured state, has similarly not shifted path radically. New political parties have continued to emerge as Bulgarians shift their votes from one party to the next. In particular, dissatisfaction with the government of Simeon II gave rise to the Citizens for the European Development of Bulgaria party (GERB) led by a former chief secretary in the Interior Ministry and mayor of Sofia, Boyko Borisov. GERB won the election in 2009 and Borisov formed a “no coalition” minority government, which nevertheless often relied on the support of potential coalition partners. Borisov enjoyed broad support because of a shift toward programmatic politics and, in particular, a hardline approach to corruption, spearheaded by Borisov’s interior minister, Tsvetan Tsvetanov (Kolev 2012: 41). To some, this signaled a potential shift in Bulgarian politics (Kolev 2012). GERB governed only until Borisov’s resignation in February 2013, however, over popular opposition to rising energy prices (Ehl 2013). Subsequent elections in March 2013 gave the most votes to GERB but failed to generate a clear outcome. The election also had the lowest turnout since 1989 – widely taken as an indication of voter resignation and disillusion even with GERB. A government formed out of this election is likely to be unstable.

It thus seems reasonable that Bulgaria will continue to operate in an environment of high uncertainty. In the economy, many of the leaders of the business community who emerged in the first wave of private property creation have been displaced by new figures. Nevertheless, Bulgaria is widely seen as a mafia state in which policy is determined by organized crime and the shadow economy. Unfortunately for Bulgaria, large legitimate business is also controlled by these actors. Further, Bulgaria continues to be plagued by a weak institutional environment and corrupt management practices in firms (Center for the Study of Democracy 2013). In fact, it seems likely that captured states have a very

hard time emerging from the circumstances that have placed them there in the first place. The state capacity to make such a shift is simply lacking in the long run. As a government official in Bulgaria argued, “There is not a vicious circle of corruption. The real problem is administrative capacity.” Without the development of state capacity, it is difficult to emerge from the cycle imposed by narrow networks and high uncertainty. Bulgaria, therefore, has been unable to move from being a captured state to some other form despite even GERB’s quite aggressive attempt to tackle corruption head-on.

Romania is perhaps the case that experienced the most change from the period before 2005. Between 2004 and 2008 Romania was governed by a coalition that emerged in opposition to the Social Democratic Party, which had through various mutations dominated Romanian politics for much of the last two decades. An electoral alliance called the Justice and Truth Alliance (DA), composed of the Democratic Party and the National Liberal Party, emerged in 2003. The priorities of this alliance were in line with the center-right ideology of its members and focused on attracting investment to Romania and empowering private initiatives, fighting corruption, creating a more fiscally responsible social policy, and depoliticizing the judiciary. In 2004 Traian Basescu was elected president and appointed Calin Popescu-Tariceanu, head of the PNL, to form a government, which resulted in a weak coalition of the PNL, the PD, the Democratic Union of Hungarians in Romania (UDMR) and the Conservative Party (PC). The DA split in 2007 when Tariceanu excluded the PD from the governing coalition. As a result, the 2008 legislative election gave birth to a new coalition government composed of the PSD and Democratic Liberal Party, the latter a union of the PD and the Liberal Democratic Party. The first designated prime minister of this coalition government, Theodor Stolojan, resigned after four days, and President Basescu then appointed Emil Boc, who would govern Romania during the economic crisis. Boc’s government collapsed in December 2009 when the PSD left the coalition. Romania’s government collapsed for a second time in February 2012, after protests that had erupted in January in opposition to austerity measures. This brought down Boc’s second government. The collapse took place against the background of heightened political struggle between Boc’s PD-L and the opposition PNL and PSD. A no-confidence vote sponsored by the opposition Social-Liberal Union (USL), seizing upon popular opposition to austerity cuts, caused the most recent governmental collapse: that of Mihai Razvan Ungureanu, in April 2012. The USL, a coalition formed by the PSD, the PNL, and the PC, won the general election in December 2012.

Although new alliances have emerged, the Romanian political leadership remains remarkably closed. Chiru and Gherghina (2012: 511) show that for more than two decades major Romanian parties (they examine the PSD, the PD-L, the PNL, the UDMR, and the Greater Romania Party – PRM) have displayed an “uninterrupted oligarchic inertia” in which parties have highly centralized leadership selection and removal procedures with low party membership and little member involvement. Coman (2012) also argues that a

reform that introduced single-member districts in 2008 had minimal impact on the power of party leaders. Moreover, despite the reformist and anti-corruption campaign that brought Basescu to power in 2004, much of the political elite colluded to reverse the reforms (Spendzharova and Vachudova 2012: 41). All three observations suggest that the political elite is insulated from societal actors and in a position to use patronage-based exchanges with business. This reinforces the view that Romania is still set in a form of patronage state, although this order may be more fragile than it was before 2004.

Lessons beyond the region

The western European experience also sheds light on the future development of at least two of the state types: concertation and patronage. There are no readily available examples of a captured state in the region.

Italy offers a western European case of patronage state. Governed by a dominant Christian Democratic (DC) party from the formation of the republic in 1948 until the Tangentopoli scandal in the early 1990s, it fits the definition of a low-uncertainty environment. Firms were also organized hierarchically through the Confindustria, which managed and structured relationships between different factions. The Confindustria served as the representative of the business community to the dominant DC (Martinelli 1979). This resembled closely the patronage state type identified in this book, with high ownership concentration in pyramidal groups (Barca and Trento 1997; Aganin and Volpin 2005). The Tangentopoli scandal that swept away the Christian Democrats reshaped the party system, however, and brought this order to an end. Certainly, patronage states that depend on the dominance of a party or coalition are vulnerable to these types of shifts.

After Tangentopoli, it becomes more difficult to classify Italy. Firms are politicized. For example, Sapienza (2004) shows that Italian state-owned banks, key suppliers of finance to firms, charge lower interest rates than privately owned banks (by forty-four basis points on average). She also finds, however, that the political affiliation of the state-owned bank drives its lending behavior. The stronger the bank's affiliated political party is in an area, the lower the interest rates that bank charges (Sapienza 2004: 359).

Political competition is intense, however, between the disorganized and frequently reorganized leftist parties and a right dominated by Silvio Berlusconi since the early 1990s. The elite on the left is closed but internally deeply split between a center-left and parties further left of center. At the same time, reforms in the financial system since the 1990s should have brought significant changes to the Italian ownership structure. The evidence suggests that such a change has not taken place, however (Bianchi and Bianco 2006). Overall, it would seem that Italy has devolved from a patronage state but not yet moved to a new type.

More examples are available of countries resembling concertation states in western Europe. According to Hall and Soskice (2001), firms in coordinated

market economies (CMEs) in continental Europe coordinate economic activity using nonmarket methods. This is accomplished by relying on informal networks or corporatist arrangements between firms. Germany is the central example of a CME for Hall and Soskice, and a country in which networks serve the purpose of facilitating economic activity and have played a key role in the country's post-war success. In addition to allowing firms to share information, engage in "network reputational monitoring," set collective standards, develop collaborative systems of vocational training and engage in relational contracting, these networks have also helped German firms coordinate in response to the increasing competition associated with globalization (Hall and Soskice 2001: 23; Kogut and Walker 2001). These networks persist and play a key role in supporting market activity despite the highly institutionalized environment in which German firms operate.

This is consistent with the broadly held view that markets rely on networks to function (White 1981; Fligstein 2001; White 2004). We can conclude from this that the emergence of well-formed institutions does not necessarily mean that networks will be displaced, as they are an essential part of certain forms of capitalism, such as the CME. It is likely also the case that, as in the CMEs, institutionalization will transform the nature of networks so that they can be incorporated into more institutionalized but pluralistic processes of economic management. This is not yet the case in any of the post-communist countries. There is evidence, however, that similar processes have been under way as a result of democratic deepening in other regions where networks play a key role in the economy. East Asian states that were identified as developmental states have seen the evolution of networks and their incorporation into collaborative relationships with the state and political actors as a result of democratic deepening (Kim 1999; Wong 2004). As with the CMEs of western Europe, this suggests that networks persist even at the advanced stage of institutional development.

NETWORKS AND POLITICS

Throughout this book, I have argued for the importance of social networks in political processes, and one key aim of this work has been to give them a central role in explanations of post-socialist development. North (2010) has argued that rationalist approaches to institutional change miss a key feature of institution building: historical forces and social structures that bind and limit the choices available to rational actors, as well as the inability of those actors to know *ex ante* which institutions will reduce transaction costs.

Social network analysis addresses these shortcomings, as has been shown by studies in economics and political science (Carpenter, Esterling, and Lazer 1998; Lazer and Friedman 2007). Often, however, in such work "networks" constitute a variable added to the analysis to capture the effect of social relations on outcomes (Putnam 1994), with little consideration of the impact that the structure of ties might have. As I can testify, data on networks are

notoriously difficult to obtain, and even more so for multiple countries. Yet the benefits of such endeavors are significant, as they grant empirical foundation to the key notion of embeddedness, bringing testable hypotheses and theory building to a new level.

MULTIPLE LEVELS OF ANALYSIS

The question of when elites cooperate to build institutions is a central question of development. The main lesson that I have drawn from this exploration is that broad networks under conditions of uncertainty create the conditions and incentives for elites to cooperate toward institution building. I have tried to address questions about the dynamics of institutional development in post-socialism by appealing to multiple levels of analysis. Behind this research design is a belief that generating insight into large-scale dynamics requires both the global view of quantitative social science and a thick understanding of dynamics on the ground. An exciting trend in recent political science is the tendency to conduct “mixed-methods” research (Lieberman 2005; Collier, Brady, and Seawright 2010), which most commonly combines quantitative analysis, allowing researchers to make sense of many cases, with deep analysis of a few cases, in order to understand the mechanisms that generate outcomes. I have followed in the footsteps of this scholarship. The ambition of this study has been to confirm the theory by utilizing data at three different levels: cross-national large-*n* data; within-country large-*n* data; and deep qualitative analysis. To this end, the study employed survey data that allow for cross-national comparisons, as well as two original data sets – of ownership and of careers – that allow for the quantitative exploration of within-country dynamics in three countries. Finally, extensive field research was conducted in each of these three countries to understand the forces driving what I observe in the data, and to supplement these understandings with the point of view of the individuals themselves through elite interviews.

At times, working at these three levels has seemed akin to the Sufi poet Rumi’s tale of “The elephant in the dark,” in which three men are led to feel an elephant in a dark room and come away with dramatically different impressions of its shape. The dynamic under study here is difficult to observe and understand. The preceding chapters represent a vigorous attempt to creatively investigate it. The challenge and the value of this study both lie in the fact that it seeks to identify the complex story of post-socialist development, told and cross-validated by what sometimes seemed like different glimpses of an elephant in the dark. Actors in this period of tumultuous change are agents within a social structure that they only partly perceive, yet they respond to it and also shape it. The dynamic is huge and its movements impressive, and yet it is hard to grasp its shape completely. The story of the elephant has endured because, while the men fight over who has correctly described it, we know that they each have a partial view. If only all three knew that each component is part of the larger whole. It is precisely this larger, cumulative impression of the beast that I have sought to deliver.