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## Article

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# Networks and Institutions in the Economic Transformation of Post-Socialism: Harriman Institute Project, Columbia University

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## Motivations

In September 2006, the Harriman Institute at Columbia University launched a year-long initiative on "Networks and Institutions in the Economic Transformation of Post-Socialism" led by David Stark. The initiative has brought together a group of scholars to study the role of politics-business ties in the economic transformations taking place in Russia and Eastern Europe. From different perspectives, these scholars explore how rapid political and economic reforms in the first years of post-socialism led to the emergence of powerful economic actors, well-connected politicians, and fluid and contested institutions.

The central agenda of transition has been the transformation or replacement of socialist-era institutions with new ones suited to governing markets and democratic polities. Against most expectations, sixteen years after the process of reform began, the region is still dominated by highly politicized markets, privately influenced politics, dense formal and informal connections among a core of key actors. While 1989 scrambled the social and cultural order of late-socialism, institutional transformation took place as members of shifting networks attempted to reconfigure their social capital and fought to retain their political influence through the process of transformation. Whereas it is often assumed that the business tycoons of the 1990s are solely responsible for distorted political outcomes, politicians also regularly use their relational and institutional power to interfere with the market. A key issue for scholars of economic institutions has been to understand how these new institutions took shape given the shifting but ever-potent force of social ties.

## Questions

Among the questions the group is addressing are: what is the role of political actors in the market? What is the relationship between institutional design and social networks? How are state actors involved in institutional innovation affected by economic networks? Have institutional changes from the early postsocialist period acquired political support and survived? Did postsocialist institutional reforms require the support of powerful political constituencies? How are coalitions built between market actors and politicians?

These questions raise the subject of the social organization of firms and politicians for the purpose of pursuing political goals. Further questions are: What is the shape of enterprise to enterprise ties and how do these vary across our country cases? How is foreign direct investment related to inter-enterprise networks? Specifically, does foreign investment typically break up domestic networks or can it be integrated into these (restructured) networks? Can we identify politicized business ties? How do these vary across our country cases? Do we find, for example, some cases in which firms build and maintain close ties to a particular party that are relatively stable across the electoral fortunes and misfortunes of the party? Are there others in which firms break ties to a party that fails to stay in government and repeatedly form new ties to party/ies in power? Are politicized markets more likely to be a function of the early years of postsocialism or do we find cases where the politicization of the economy increases across the period?

## Research

A core part of the project is research conducted by scholars brought to Columbia. With support from the National Science Foundation, David Stark and Balazs Vedres have constructed a very rich dataset on the Hungarian economy. For the critical years of transformation covering 1987-2006

these data include: 1) the complete ownership histories of the largest 1,800 Hungarian enterprises; 2) data on foreign investment in these firms, their revenues, capitalization, etc.; 3) the complete list of economic office holders (managers, and members of the supervisory boards and boards of directors) of the largest 1,800 firms and banks; and 4) the complete list of political officeholders in the country including the Prime Minister, all cabinet ministers, their politically-appointed deputies, the members of the last Central Committee of the Communist party, members of Parliament, and all mayors – with party affiliations of each politician. All changes of the corporate ownership and personnel data, as well as those of the political officeholders, are recorded at a monthly time resolution. With these data, Stark and Vedres aim to chart the complete network histories of interorganizational ownership ties, interlocking directorates, and personnel ties among enterprises and political parties for an entire epoch of political and economic transformation.

Although unparalleled in their comprehensiveness, the Hungarian dataset does not exist in isolation. Substantial network data have also been collected for Slovenia, Poland, Romania, and Bulgaria. Partial, but very informative – because reaching back historically into the communist period – network data also exist for selected industries in the Czech Republic. Leveraging these data comparatively, we expect to discover differences in the way that the politicization of networks influences a variety of outcomes, from corruption and governance to patterns of innovation. Working together, the group will be able to draw on an unequalled number of country studies and complementary research to generate large-scale data-based knowledge about the network dynamics of post-socialism.

## Activities

In addition to research, the project hosts a regular seminar series. In fall 2006, Gerard Roland, Gerald McDermott, Laszlo Bruszt, Federico Varese, and Keith Darden presented papers on topics ranging from the varieties of postsocialist capitalism to the spread of Russian mafia networks into Italy. For spring 2007, the seminar has invited Anna Grzymala Busse, Andrew Walder, and others to be announced.

In April, David Stark, Roger Schoenman and Balazs Vedres will convene a workshop related to the project theme. Titled *Poli-ties*, it will focus on the pattern of ties that link the polity to other social spheres. The workshop will seek to underscore the value of a network perspective in understanding the complexity of those linkages. Despite a long-standing recognition of the inseparability of markets and politics, relatively few scholars empirically study the personal and organizational interconnections between them. We propose to examine the relationship between the two key organizations of capitalism and representative democracy: the firm and the political party. Whether in the United States, Latin America, East Asia, or the postsocialist countries, to compete in the political field governing parties need to manage the economy, and all political parties need access to resources. Meanwhile, to compete in the economic field, firms need access to government contracts and to timely information about government policies. In short, to gain resources to compete for votes, parties compete for firms. At the same time and in parallel, to gain an upper hand in economic competition, firms ally with parties. The purpose of this workshop is to bring together scholars who study the multiplex networks of obligation and exchange that link the political and economic fields.

More information about the project, seminar, workshop, and participants can be found at <http://networks.harrimaninstitute.org/>