



**CENTRE FOR THE STUDY
OF ECONOMIC & SOCIAL
CHANGE IN EUROPE**

**SCHOOL OF SLAVONIC & EAST
EUROPEAN STUDIES**

Ambiguity of Social Networks in Post-Communist Contexts

Alena Ledeneva
Department of Social Sciences
School of Slavonic and East European Studies, University College London
Email: a.ledeneva@ssees.ucl.ac.uk

Working Paper No. 48

University College London
Centre for the Study of Economic and Social Change in Europe
Senate House, Malet Street, London, WC1E 7HU
Tel: 44(020) 7863 8517
Fax :44(020) 7862 8641
Email: csesce@ssees.ac.uk

Ambiguity of Social Networks in Post-Communist Contexts

Alena V. Ledeneva

Department of Social Sciences

School of Slavonic and East European Studies, University College London

February 2004

Abstract

The paper discusses three hypotheses. First, it introduces four ideal types of networks which are combined in the category of networks as used by social scientists. Four types result from the intersection of two implicit choices made about networks – networks are assumed to be either personal or impersonal, and are viewed either internally or externally. Thus, networks are understood in terms of sociability, access to resources, enabling structure, or social capital. Second, I argue that networks function in a fundamentally ambiguous way. They operate in their capacity of a safety net or survival kit, provide a ‘beating the system’ capacity or compensate for the system’s defects. At the same time networks provide constraints such as high costs of informal contract, limits on individual action, lock-in effects and the handicaps of social capital. Third, I illustrate differences between networks serving the economy of favors in Russia and networks serving the purposes of ‘network society.’

Keywords

Networks, ambiguity, sociability, access to resources, enabling structure, social capital, economy of favors, network society.

Acknowledgements

I am grateful to Dafne Ter-Sakarian, who has offered help and co-operation at the early stages of work and made comments and suggestions to the later draft and to Anthony Lauren who has helped with preparing the copyedited version of the text. Discussions with Manuel Castells and Emma Kiselyova have been the inspiration.

I Introduction

In the analyses of state weakness in Central and Eastern Europe,¹ one of the approaches defines the weak state as a captured state, a state in which particular group interests dominate the policy-making process, when these interests in an illicit way shape the rules of the game. The state can be captured by oligarchs and predatory elites, by businesses and by all kinds of social networks. Among these, assessing the role of social networks is perhaps most difficult.

In order to answer the questions of whether the impact of social networks in post-Communist economies is essential, whether they are conducive to state capture, and whether the post-Communist reforms change the nature of social networks, I offer a typology of approaches to the study of networks, analyze the ambiguous nature of networks, define the key features of networks that are associated with the informal workings of Russian society and assess the prospects of the instrumental use of social networks in post-Communist contexts.

So far post-Communist network studies have been relatively unrelated to the general field, mainly due to the fact that they have not developed as a result of the expansion of the method over the new territories and sets of data. Rather, research into networks appeared as a response to the difficulties of the theories of transition. Once the initial “one size fits all” prescriptions of Western specialists and international financial institutions failed to deliver equally positive results throughout the region,² some alternatives had to be found. In the search to find reasons why the Western model had not proved directly applicable to all the transition economies, it became apparent that Western prescriptions had not taken into account the fact that the command economy had relied heavily on complex social networks to compensate for its economic inefficiencies. In fact, it could be argued that success of transformation is in a reverse proportion to the degree of integration with the Soviet economy. Countries and ex-Soviet republics that have been exposed to the Soviet regime for longer periods and in a more integrated way have been struggling through the 1990s and subject to state capture much more than those in which land was never collectivized (Poland) or where the private sector sustained itself throughout the Soviet rule (Hungary and Czechoslovakia), arguably due to a more substantial role that those informal networks and practices assumed in order to compensate for the deficiency of the planning systems. These networks had not only survived the transition, but in some cases—most notably the privatization process in Russia—had provided channels to capture the state and to substitute for the market mechanisms, thereby hindering both economic and political reform.

In turning their attention to social networks, students of post-Communist transition stepped on the ground that has already been developed in Western studies but in different contexts.³ This created a certain gap between those in possession of the method of studying networks and those in need of understanding the ways in which networks work in the post-Communist world and their implications for the emerging markets. Whilst scholars dealing with Western countries have developed the study of networks to the point where it is subject to fairly rigorous methodological standards—including the use of dedicated computer software—studies of networks in emerging market economies are far less structured and are predominantly based on qualitative methods. Furthermore, because studies of networks in post-communist societies evolved spontaneously as a response to the importance of networks to almost every aspect of transition, they cover a broader spectrum of topics—from networks that serve large-scale corruption to the use of networks as a survival strategy. The eclecticism that has developed within the field of post-Communist network studies is both its strength and

its weakness. Social networks are based on human interaction, and therefore penetrate every sphere of the economy and society. This means that almost every social enquiry can have a network dimension and get researched in adequately varied and context-bound ways but it also inevitably means that studies of networks in transition economies develop unevenly and without a coherent overall framework – thus undermining the potential comparative utility of the network perspective.

The attempts to bridge the gap and to build a base for comparisons, say by introducing categories such as social capital to the research into emerging markets and democracies, have produced mixed results for reasons that will be analyzed in detail below. For example, on the basis of their data, Endre Sik and Barry Wellman⁴ argue that people in the communist countries of Central and Eastern Europe used to rely on network capital – the use of networks – more than people in developed capitalist countries, and that they do so even more in the post-communist era. The scope and role of network capital varies among societies; it is a simultaneous function of a society's culture, its past and present social organization, and the changing socio-economic situation.⁵ The *volume* of an economic actor's⁶ network capital is equal to the size and number of the networks that it can mobilize in case of need. The *value* of an actor's network capital is a function of the number and availability of network members, and the resources and amount of network capital that these members themselves possess. Sik and Wellman emphasize two ways in which network capital can operate in relation to the market and the state: as a substitute or as an addition. When network capital is a substitute, it is used as an institution independent from the dominant institutions – as when people exchange among themselves the goods and services needed for survival. In every society from ancient to modern times, various forms of network capital have persisted through altruism, barter and reciprocity.⁷ Sik and Wellman describe several ways in which network capital was used as a substitute in communist countries: the reciprocal exchange of labor among workers to deal with routine problems, emergencies and the special case of house-building, and managers' reciprocal transactions in aid of their organizations. According to them, under communism and post-communism, network capital was and is more commonly an addition, operating within the framework of the state and the market.⁸

The metaphor of “capital” is useful for assessing the impact of networks at the macro level but can be misleading at other levels of analysis. Apart from being an “addition” or “substitute,” networks play a generically ambiguous role, i.e. can be associated with both positive and negative implications of social capital. To make this point clearer let us “map” the range of existing perspectives on networks. Having analyzed many studies of networks I have found a way of accommodating the existing perspectives by dissecting the basic assumptions that are implicitly or explicitly made about networks by the authors:

- 1) networks are viewed as *personal* – that is, organized as a system of nodes and ties centered around a particular node (or around several nodes, as in the 1996 study of St. Petersburg teachers' personal networks for example⁹) – OR *impersonal* – that is, viewed as a de-centered organizational principle (a chain of restaurants, firms etc).
- 2) networks are viewed *internally*, as interesting in themselves – in which case micro data on networks are collected – OR *externally*, when the implications of networks for the wider context become the focus of study – in which case networks are seen as an instrument or a factor at the macro level.

The intersection of choices made about the focus of the analysis of networks provides us with four principal perspectives on networks, illustrated in the following scheme:

Type of network	Personal (Centered or multi-centered)	Impersonal (Decentered)
Focus on		
Internal constitution (Micro)	Sociability	Enabling structure
External influence (Macro)	Access to resources	Social capital

Because social networks can be viewed from all four perspectives and because the boundaries between these perspectives are construed by the analytical focus of a given researcher, it is crucial to see both the strengths and limitations of every perspective on the “map” and the linkages between different perspectives. Let us illustrate these linkages and an ambiguous and context-bound nature of networks in the context of the (post)communist order.

II From “sociability” to “access to resources”

In conventional sociological discourse the term “network” is used to designate social ties between people and to cover “sociability” (intersection of micro and personal perspective) – i.e. relationships with friends, leisure associates, and colleagues – and networking can be defined as connecting nodes and building up networks. Under certain conditions, however, as it used to be the case in the Soviet economy of shortage, friendship and the use of friendship become blurred. Friends (and acquaintances) were expected to provide each other with access to goods and services in short supply and help out in other ways too. Networking acquires a connotation of the pragmatic use of networks, and the term “network,” therefore, ceases to be just a basis for sociability. Along with sociability, personal networks also provide unauthorized access to institutional resources, and thereby form certain patterns of mediation between state and society, the public and the private. There is no Soviet word to denote “network” or “networking” (now a technical term *seti* is being used in academic circles in Russia), but the most related idioms – such as *blat*, “people of the circle” (*svoi liudi*), “one of us” (*svoi*), and “circles of mutual dependency” (*krugovaia poruka*) – carry connotations pointing to the exclusive (closed) nature of networks and their calculated use. This prompts one to look into the micro dimensions of networks – the nature of ties constituting networks, their openness/closeness, norms and ideas channeled by those networks – in addition to the analysis of their functional or dysfunctional implications for the economy. In fact, it appears to be the case that the role social networks play in a wider economy has a close correlation with the nature of ties, norms and ideas within a network.¹⁰ The more dependent the formal economy is on personalized networks, the more instrumental the ties within social networks¹¹ are and the less developed the impersonal systems of trust are. In such economies the fact of belonging almost automatically provides a member of a social network with access to a whole variety of institutional resources available “for people of the circle only,” while a wider social fabric is rather unwelcoming and even hostile. Needless to say, the legacy of such personal networks impedes the emergence of impersonal systems of trust and the development of a fully-fledged market economy in the post-Soviet period. This is not helped by the fact that the

market economy does not work as it should for a variety of structural and macro-economic reasons, which makes the preservation of personal networks a perfectly rational economic response to a high-risk environment.

Once the sociability aspect of networks goes into the background the instrumental use of networks comes to the fore. Wellman argues in the introduction to *Networks in the Global Village* that the use of social networks is one of the five basic means by which people and institutions acquire necessary resources – along with market exchanges, state distributions, and to a lesser extent, self-provisioning and coercive appropriations.¹² “Just as people use their financial capital to purchase things on markets and their human capital to gain better access to markets and state distributions, they also use *network capital*, their connections with people and organizations. Such network capital can assume many forms, such as altruistic, long lasting and multipurpose relations; short-term instrumental relations; asymmetric patron-client relations; corrupt, exploitative unequal exchanges.”¹³ Despite the “anti-social” nature of many of these forms, Sik and Wellman’s argument is that networks are an important form of social capital.

III From “access to resources” to “social capital”

The analogy between networks and financial capital is taken further by those using the concept of social capital (macro, impersonal perspective) in order to measure the effect of networks on economic performance or political participation. The best known definitions of social capital are associated with the following authors:

Bourdieu (1986)	Coleman (1988)	Putnam (1993)
Social capital is “the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group – which provides each of its members with the backing of the collectivity-owned capital, a “credential” which entitles them to credit, in the various senses of the word.” ¹⁴	According to Coleman, “social capital is productive, making possible the achievement of certain ends that in its absence would not be possible.” ¹⁵ Informal social relations can be critical in creating the potential for and conditioning the nature of social and economic activity. Coleman proposes to think of these relations as “social” capital. Social relations may have important effects on trust that may be critical to efficient exchange, important to the flow of information, and basic to the development of norms and effective social sanctioning.	Putnam sees social capital as those “features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating co-ordinate actions.” ¹⁶ Putnam defined social capital as “...features of social life— networks, norms, and trust— that enable participants to act together more effectively to pursue shared objectives.” ¹⁷

For Bourdieu, social capital is one of three forms of capital (economic, cultural and social) which taken together “explain the structure and dynamics of differentiated societies.”¹⁸ Fundamental structures that produce and reproduce access to social capital are *networks* of connections, which themselves are “the product of an endless effort at institution.” If the ways of producing and reproducing of social capital in Bourdieu’s account may appear vague, his understanding of how to measure social capital is clearer than that found in Coleman and Putnam. For Bourdieu, “the volume of the social capital possessed by a given agent ... depends on the size of the network of connections he can effectively mobilize and on the volume of the

capital (economic, cultural or social) possessed in his own right by each of those to whom he is connected.”¹⁹

Bourdieu and Coleman’s conceptions of social capital emphasize the analogy with financial capital, seeing it as *instrumental* in the flow of goods and services to individuals and groups. Putnam, in contrast, has popularized a notion of social capital tied up with the production of collective goods such as “civic engagement” or a spirit of cooperation at a community or national level. For Putnam, associations, particularly those featuring face-to-face, horizontal relations among individuals, generate trust, norms of reciprocity, and a capacity for civic engagement which are essential to the functioning of a modern democracy.²⁰

Coleman’s definition of social capital is somewhat problematic because social capital is defined in terms of its outcome and implies that social capital normally leads to “productive” outcomes.²¹ However, Coleman himself does leave room for unproductive social capital. Regarding the productivity of social capital he notes that a given form of social capital that is valuable in facilitating certain actions may be useless or even harmful for others.²²

Another important difference in Coleman’s and Putnam’s approach towards social capital is that Coleman uses the concept of social capital as a part of the theory of human action and applies it primarily at a micro level, while Putnam deploys social capital as a concept to study institutional and economic performance at regional level. Thus, the use of the concept of social capital ranges from the membership in networks and/or collectives (as in the case of Bourdieu) to the macro- and regional economic approach concentrating on the relationship between economic growth, democracy and social capital (as in Putnam’s case). In the former case, relations themselves are treated as resources. In the latter case, the network location affects an individual’s access to assets that are not in themselves characteristics of networks.²³ The multiple use of the concept and its context-bound nature makes the existing empirical studies of social capital incompatible in a comparative (capitalism vs. communism) or dynamical (communism vs. post-communism) perspective. To complete the description of our range of perspectives, let us move on to consider networks as “enabling structures.”

IV From “social capital” to “enabling structure”

Shifting our focus onto the membership in networks, we arrive at the fourth (micro, impersonal) perspective, which refers to a large number of people, groups, institutions, etc. that have a connection with each other and work together as a system.²⁴ It is used in relation to anything from a public telephone or television network to the supportive network of the extended family and global production networks.²⁵ Technically speaking, it is a system of nodes and ties representing a “web” principle of organization. Thus, Manuel Castells promotes the idea of a network society²⁶ based on the new technologies and communicational networks characteristic of the information age, while Dirk Messner in *The Network Society*²⁷ focuses on social networks and excludes electronic networks, media networks, intra-firm networks or even production networks.²⁸ As emphasized by many authors, perpetuating role of networks as ‘enabling structures’ has been particularly essential in the context of post-communist transformation. The enabling structure of networks has not only served the purposes of interpersonal or inter-enterprise survival/ success but also buffered the uncertainty of the post-communist transformation. As David Stark and Balazs Vedrez put it, network ties are a “resource both for navigating the uncertainties of postsocialism and for managing the new uncertainties of internationalization of the economy.” In their original sequence analysis of network formation, they provide substantial evidence that foreign investment and network

evolution in Hungary are intertwined processes.²⁹ In their capacity as ‘enabling structures,’ networks represent a third dimension to the existing dichotomy of the vertical (hierarchies) and the horizontal (markets) ones. Networks are neither vertical nor horizontal, their enabling quality resides in their ambiguity and their ‘navigational’ (between vertical and horizontal) capacity. Their logic is both to compensate for the defects of vertical and horizontal structures and to turn these defects into advantage of network members.

To re-iterate the points in table 1:

- Because networks stretch across all dimensions indicated in the table – networks serve both access and sociability, provide both a structure and its outcome (capital) – with insufficiently identifiable boundaries between these functions, they are inherently ambiguous in their impact on both micro and macro structures;
- Networks constitute a social form that cuts across conventional micro-macro divisions and personal-impersonal dimensions.
- The generic functions of networks coincide with all four perspectives on networks: “sociability,” “access,” “enabling structure,” and “social capital,” each of which can have both positive and negative implications.

V Ambiguous implications of networks

Let us formulate the positive implications of the functioning of networks:

1. *Safety net (sociability)*. Social networks are conducive to human co-operation and mutual help, providing sociability, emotional support, and assistance for routine domestic needs and health care.
2. *Survival kit at the micro-level (access)*. Social networks constitute a basis for survival strategies. Co-operation is a way to cope while facing hardships. It is less costly, more effective, and more easily accessible than any other alternative – such as market purchases or acquiring state redistributions.³⁰
3. *Beating the system (enabling structure)*. Networks can be used as a means to avoid competition or to increase one’s chances in it. Investing into and maintaining networks of partners represent a routine business strategy. For example, there are personal networks between buyers and sellers in local markets,³¹ and business executives often make personal deals to avoid the rigidities of contracts.³²
4. *Compensatory effect (social capital)*. Social networks compensate for the defects in formal systems – say in a high-risk environment or where impersonal systems of trust are not working as they should. By providing what formal systems cannot, networks not only enable their members to operate, but also contribute to their own reproduction.

In practice, social networks are operational both in the “access” mode (thus channeling the network/social capital to the macro-level in order to maintain existing formal institutions) and in the “sociability” mode (by servicing the social relationships at the micro-level that constitute networks); social networks are both a structure and its outcome. The ambiguous nature of networks, however, results in the fact that the “positive” implications of networks associated with access – flexibility, psychological support, reduced risks and transaction costs – may at the same time have “negative” implications for the economy, for the networks themselves and for the individual members.³³ Woolcock finds that: “high levels of social

capital can be [...] “negative” in that it also places high particularistic demands on group members, thereby restricting individual expression and advancement, permits free riding on community resources; and negates, in those groups with a long history of marginalization through coercive non-market mechanisms the belief in the possibility of advancement through individual effort.”³⁴ At the macro level, the predominance of networks does not necessarily improve or inhibit economic growth, as the contrast between Chinese and Russian recent developments illustrates. The impact of networks depends on their inner structure³⁵ and its projection onto the economy.

Similar ambivalence is characteristic of the role of informal networks in the Soviet system. Many scholars ranging from Merle Fainsod³⁶ to J. Arch Getty³⁷ viewed the significance of informal networks in the Soviet economy primarily as a hindrance to efficient governance. Others, building on the work of T. H. Rigby³⁸ and Graeme Gill,³⁹ viewed personal networks as central to the workings of the system.⁴⁰ It seems essential to reveal both the functional and subversive roles of informal networks in the formal economy. On the one hand, personal networks became embedded in the institutional order to such an extent that agents stopped reflecting upon them, which in turn made them an integral part in the functioning of the economy. On the other hand, they also subverted the economy, especially its ideological and moral foundations. In other words, there is no linearity in the relationship between networks and functioning of the economy: any universal formula like “the more networks, the better” is unlikely to work. The reason for this is an ambiguous nature of networks, as there seems to be a reverse side to each of their “positive” implications. Let us now consider the “negative” implications of networks in more detail:

1. *High cost of implicit contract (the reverse side of sociability)*. Even if one “inherits” a network, rather than builds one’s own, the network does require maintenance and investment. Maintaining social ties (satisfying reciprocal demands and thus reproducing trust) generates cost. In other words, belonging to the network creates obligations towards the other members of the network, or implicit contract. Therefore, whatever advantages one receives from being embedded in a network (incurring less transaction costs) is counterbalanced by the obligations of the implicit contract.⁴¹ These obligations, imposed by the relationships of trust and reciprocity, may force one to over-exploitation of one’s resources (or access to resources) by other members of his network, which in turn can lead to a *free-riding problem*.
2. *Limits to individual action (the reverse side of access)*. Membership in a closed social network (with consequent sanctions to enforce the implicit contract) can subject members to restrictive social regulations and limit their individual action. All kind of leveling pressures keep members in the same situation as their peers⁴² and strong collective norms in communities may restrict the scope of individuals.⁴³ Non-compliance with the demands of membership can also result in a loss of reputation as a reliable member of the network.
3. *Lock-in effects (the reverse side of enabling structure)*. It should be noted that the negative impact is strongly enhanced within the closed networks. It is the belonging to the closed networks, rather than networks in general, that reduces adaptive capacity and carries the dangers of lock-in effects. These lock-in effects may be strengthened by processes of cognitive dissonance in tight groups.⁴⁴ Individuals who make up a dense network tend to develop a commitment to one another and to their group. Information that disturbs the consensus of the group’s perception of reality is likely to be rejected. Belonging to a network seems to yield positive results up to a certain threshold. Hence, the positive

effects of being a member of a network are the same mechanisms that cause negative effects. The same processes of lock-in are found at the level of sectors, localities and regions. Especially for de-industrialized regions, part of the problem is that they are locked-in to institutional structures that were relevant to an earlier phase of successful economic development but which now constitute a barrier to moving onto a new path of development.⁴⁵

4. *The reverse side of social capital.* The adaptive ability seemingly intrinsic in network structures can be, however, reduced as a result of path-dependency effects.⁴⁶ Portes and Landolt suggest that the assumption that social capital is only positive is wrong and that there are also negative sides to social capital.⁴⁷ Portes and Sensenbrenner further argue that “it is important not to lose sight of the fact that the same social mechanisms that give rise to appropriate resources for individual use can also constrain action or even derail it from its original goals.”⁴⁸ In other words, networks do not only organize and facilitate, they also divert and misappropriate the structures organizing the economy’s dominant functions and processes. For example, networks that have been used as a resource, say, in starting up businesses (studies of social capital emphasize this aspect of networks), can later become a serious obstacle for the further development of the business environment (skills of maintaining networks might not fit the context of competition, transparency, and market values). Finally, negative externalities from intense group membership result from the effects described by Olson.⁴⁹ When groups become too large and powerful, rent-seeking behavior and lobbying costs influence economic development negatively. However, Knack and Keefer⁵⁰ do not find empirical proof for this postulated negative relationship of Olson. It might be the case that both “too little” and “too much” social capital can impede economic performance, which suggests that social capital should be optimized and not maximized, and a careful analysis of the nature of social networks and their functions should be made.

In other words, because networks can work both for and against state and market institutions, the volume of network capital is not necessarily an “addition” to the economy, especially when networks are conducive to corruption.

Let us take the example of social networks that are associated with the informal workings of the economy. By serving the “economy of favors” social networks have a considerable bearing on the nature of both personal relations and institutions. Personal relationships become “colonized” and used for matters going far beyond sociability, while formal institutions get “informalized,” which results in “privatizing” the Soviet state, as Vladimir Shlapentokh put it⁵¹ – or in the post-Soviet “state capture,” using the terminology of the World Bank. There is literature on the sociology of organizations that looks into the impact of personal networks on organizations. What is less explored is the impact of the instrumentality of social networks on their nature and on the ideas and values channeled through them.

The exploitative use of social networks as well as the exploitative use of state or institutional resources is the basis of the economy of favors. Certain specific features by which such networks can be identified are as follows.

They are quite literally “in-formal,” that is they operate on the basis of personal relationships but intertwine with the formal institutions (say, if a friend is also a colleague, a boss or a functionary in charge of distribution of a resource). In framing these networks, I follow the logic of Endre Sik and Pal Peter Toth’s concept of the “hidden economy” and *Eurostat*

classifications, which do not take account of housework, do-it-yourself activities, social work, the exchange of produce between households, crime or activities which count as productive but which are not legal (e.g., the production of drugs and the trade in them). Under the category of “hidden” Endre Sik and Toth do list the unreported activities of registered enterprises and the activities of enterprises which, although not registered, conduct otherwise legal activities.⁵² Following this logic, networks that serve the economy of favors are constituted by channels either penetrating or residing within formal structures. I thus exclude personal networks that serve domestic and do-it-yourself exchanges, and focus on favors that are given at the expense of institutional resources. These are so-called “favors of access” that serve to channel institutional resources into private pockets, thus constituting a parallel currency in an economy where money previously played only a limited role. Values and ideas channeled through these networks are associated with mutual help, beating the system, cooperation on a micro level to compensate for the unfairness or harshness of the macro order, or the notions of entitlement. In a Soviet context all these features are rooted in mutual parasitism between the state and the population: parasitism towards state resources on the part of the population and traditionally exploitative attitudes of the state towards its population. In the post-Soviet “piratization”⁵³ of Russia, informal networks served the constituencies of grand corruption at the top involved in insider dealings for the benefit of cliques, clans or oligarchic groups.

The change of context during the post-communist reforms in Eastern Europe, Russia or post-Mao China and the subsequent change of role that informal networks play in an economy can be referred to the “dynamic puzzle,”⁵⁴ i.e. the question of whether certain forms of social capital can be thought of as universally desirable regardless of historical context (i.e. does the evolution from industrial to post-industrial economic activity lead to a change in the form of social capital?) The literature on post-Communist transition seems also to indicate that the value of networks is not universal: in one political and economic framework they might play one role, but once that framework changes networks adapt and may function in different ways. One of the most conspicuous outcomes of the post-communist transformation in Russia is the spread of corruption that to some extent grew out of and was enhanced by the “monetization” or instrumental use of those network channels that already existed. In the economy where money did not play a role, informal exchanges were largely non-monetary, involved humanizing relationship, and were more available for poor people. Once the informal exchanges within networks serving the economy of favors became monetarized the following tendencies can be noticed:

- Humanizing relationship gave place to calculation of time and cost (*sociability*);
- Networks used for obtaining items of personal consumption became used for “making money” (*access*);
- Networks became less available for the poor and appropriated by the rich and powerful (as people say, the society in which one was connected at the bottom and lonely at the top has changed into the one in which one is lonely at the bottom and connected at the top. In Bourdieu’s terms, *social capital* has become less accessible but its volume has increased dramatically);
- Networks became more “closed” turning into clubs and circles⁵⁵ (*enabling structures*).

The latter point is important. In fact, it can be argued that although there might not be any linear correlation between types of social capital and economic and political development, the implications of networks do depend on their inner structure – “open” or “closed” – on the ideas and values they channel, and on the practices they organize. Below I illustrate this point by outlining the generic features of networks that serve the economy of favors, relying on my

own research,⁵⁷ in contrast to the features of networks characteristic in the network society, as suggested by Manuel Castells.⁵⁸ These are the ideal types that can be used for assessing the role of networks in Soviet times, their transformation in the post-Soviet Russian and prospects for change.

Table 2

<u>Networks in the Economy of Favors</u>	<u>Networks in the Network Society</u>
Existing structures grounded in the past	Emerging structures permeating all societies
Networks account for anti-modern nature of institutions	Networks are the institutions of the information age, enabling and innovative
Socio-political basis: statism	Socio-political basis: global capitalism
Networks are exploitative of the state, parasitic on state property	Networks transcend all states
Networks are personalized, based on <u>a priori</u> existing social contacts	Networks (both technological and social) are of an impersonal nature
Networks of “<u>svoi liudi</u>” bound by mutual obligations and closed to outsiders	Networks imply openness, dynamism and flexibility for individuals, firms and countries
Discipline imposed by ethics, etiquette and unwritten rules	Discipline imposed by global financial markets, military technology, control of knowledge
Unwritten rules are followed more than laws	The only rule is that there are no rules – laws are enforced with difficulty by global and national institutions
Ambivalent relationship between networks and the socio-economic order: networks are both functional and subversive	Networks generate a new order (assumes decline of the state)
Fragmentation of the state, with state institutions being “colonized” by antagonistic networks	The new state will be a decentralized network state (devolution of power and resources to regions, local governments and NGOs, initiated by the state)
Indicators of economy of favors: diversion in workings of formal institutions (ineffectiveness of the rule of law, oversized informal economy, spread of corruption and customary practices)	Indicators of network society: number of communication devices (telephone lines, TV, PCs, Internet hosts etc.)

It follows from the evidence provided by Castells and Kiselyova⁵⁹ that some features of the network society model are already visible in Russia [give example]. My own views on the possibilities of a smooth transition in Russia to a network society are rather pessimistic. There is evidence that even emerging networks of a “network society” type still have the features of Soviet informal networks.⁶⁰ For a fully-fledged market and democracy to emerge, networks will have to cease being exploitative of friendships and of institutional resources – features that have been described as somewhat inherent to the Russian character.⁶¹ So far this has not been the case. Social networks have become linkages between Soviet and post-Soviet society and have been held responsible not only for their “safety net,” “survival kit,” “enabling” and “compensatory” functions but also for their aggressive and instrumental use in barter and the shadow economy, arrears and tax games, corrupt exchanges and criminalized contexts. These have had important implications for the state, market and civil society during the “formative” period. To sum up:

- Networks have been conducive to state capture and corruption. The organized groups that breached the state monopoly of legitimate violence and took over the function of conflict-resolution and law and contract enforcement in the private sector of the economy used a ramified network of informal control and forced sanctions (gangs, private protection firms, etc).⁶² They also offered, among other things, services of “solving problems” through informal channels in local and regional authorities, tax inspection offices and the state coercive institutions.
- Networks have undermined the free-market principles of profitability and open competition. The “favours of access” given to “people of the circle” are likely to account for the super-profits made on the Russian market, for the 1995 loans-for-shares auctions, GKO-pyramids and the notorious role of “authorized” banks in covering state budget deficits before the 1998, as well as for large-scale corruption.⁶³ The anti-bankruptcy alliances between industrial firms and local authorities, the spread of financial scheming, complex ownership schemes and so-called “authorized” business structures etc. all indicate the crucial role of informal networks in the Russian “market.”⁶⁴
- Networks of mutual help and informal exchange – developed under the Soviet regime outside the state and the market domain – did not contribute, as some would perhaps expect, towards the constitution of civil society because of the exploitative nature of informal associations and the parasitic use of state and non-state resources.⁶⁵

These tendencies illustrate the closed nature of networks in Russia in the 1990s as well as all four types of negative implications that networks can have. Moreover, Sik and Wellman argue that the need to use networks to compensate for the permeability, fluidity and uncertainty of post-communism have fostered even greater reliance on networks. The implications of closed networks in post-communist contexts need to be explored further and related to the findings of network studies elsewhere.

To sum up the discussion of the closed networks serving the economy of favours, the following hypotheses can be formulated for further consideration:

- As follows from table 2, “closed” networks are essentially different from the networks characteristic for the “network society;”
- “Closed” networks have proved sustainable in a post-Communist context, and the World Bank survey on state capture indicates that only a limited constituency for “opening up” exists in Russia (Ref to the types of firms included in the survey);

- There are vested interests in sustaining the influence of personalized and closed networks in Russia and consequently the resistance towards Russia's integration into the international community. In Russia's political climate, the closed nature of networks impedes internationalization and substantial change. Rather, by reproducing themselves (and their links to the state system that originally empowered them) these networks adapt, reinvent and reinforce the forms of their integration into the political and economic system. It is these forms of integration that are essential to grasp in order to understand the differences in the use of network capacity. For example, the informal networks (*guanxi* in China and *blat* in Russia) that have been used similarly in the context of the state centralized systems in China and Russia, now serve the state and generate *guanxi* capitalism in one case, and undermines state capacity in the other.⁶⁶

¹ The former Soviet Union countries seem to a large extent captive in the same model of state weakness.

² Stiglitz, Joseph, *Globalization and its Discontents*, New York: W. W. Norton, 2002.

³ Studies of networks are a wide-ranging and multidisciplinary field. Its mainstream dimension, social network analysis, is grounded in a specific technique used to analyze network data. It is focused on concepts of centrality, cohesion, cores, prestige, roles, personal and occupational ties in the allocation of resources etc. [see, for example, Wellman B. and Berkowitz, S.D. *Social Structures: A Network Approach*. Cambridge: Cambridge University Press, 1988. Network analysis is concerned with how to locate people in various kinds of networks, how to estimate who and what they know, the resources to which they have access and the social constraints affecting their behavior. Network analysis uses graph theory and models such as p1 and its relatives. Software packages have been developed to analyze network data, such as UCINET and Krackplot. The field has been booming in the USA and the UK and has achieved a high degree of formalization (see for example Wasserman, S. and Faust, D. *Social Network Analysis: Methods and Applications*, CUP, 1994). Social network analysis is also widely used in business studies and management, see for example Albert-Laszlo Barabasi, *Linked: The New Science of Networks*, Perseus, 2002.

⁴ Sik, Endre and Barry Wellman, "Network capital in capitalist, communist and post-communist countries," in *Networks in the Global Village*, edited by Barry Wellman. Boulder, CO: Westview Press, 1999, pp. 225-255.

⁵ Granovetter, M., 1973, "The strength of weak ties," *American Journal of Sociology*, vol. 78, p. 1360-1380;

Granovetter, M., 1985, "Economic action and social structure: the problem of embeddedness," *American Journal of Sociology*, vol. 91, p. 481-510.

⁶ An economic actor could be a person, household, organization, state, etc.

⁷ Polanyi, K., 1944, *The Great Transformation*, New York, Rinehart.

⁸ Sik, E. and Wellman, B. "Network capital in capitalist, communist and post-communist countries," in *Networks in the Global Village*, edited by Barry Wellman. Boulder, CO: Westview Press, 1999, pp. 225-255.

⁹ Lonkila, Markku *Social Networks in Post-Soviet Russia*. Helsinki: Kikumora Publications, 1999.

Risto, Alapuro, "Categories, networks and civil society: teachers' social ties in St Petersburg," *Civil Society in the European North: Concept and Context*. St Petersburg: Centre for Independent Social Research, 1996, pp. 109-116.

¹⁰ For example, Li Bennich-Bjorkman illustrated the variation in state capture in the Baltic states by showing that "old" networks (anti-communist, student movement) in Estonia have contributed toward the development of the party politics and transparency of the economy whereas "new" networks in Latvia have become a cause for exclusivity and corruption. See Bennich-Bjorkman, Li, 2002 (forthcoming), "Explaining State Capture in Estonia and Latvia: Identity, International Role Models and Political Formation", *The Baltics: Culture, Society, Politics*.

¹¹ The instrumental use of networks is usually "misrecognized" by the members. The aspect of misrecognition is not considered in this paper. For details see Ledeneva, A. *Russia's Economy of Favours*. Cambridge: Cambridge University Press, 1998.

¹² Wellman, B. (ed.) *Networks in the Global Village*. Boulder, CO: Westview Press, 1999, pp. 4-12.

¹³ Sik and Wellman, as in Fn 8.

¹⁴ Bourdieu, Pierre, "The Forms of Capital," in *Handbook of Theory and Research for the Sociology of Education*. Ed. by John G. Richardson. New York: Greenwood Press, 1986, pp. 248-9.

¹⁵ Coleman, J.S., "Social capital in the creation of human capital," *American journal of sociology*, 1988, vol. 94, S95-S120, p. 98.

¹⁶ Putnam, R.D., Leonardi, R and R.Y. Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy*, Princeton University Press, Princeton, New Jersey, 1993, p. 167;

¹⁷ Putnam, Robert D. "Tuning In, Tuning Out: The Strange Disappearance of Social Capital in America." *PS*, 1995, 28(4), pp. 664-683, p. 664-665.

- ¹⁸ Bourdieu, Pierre, and Loïc Wacquant. *An Introduction to Reflexive Sociology*. Chicago: University of Chicago Press, 1992, p.119.
- ¹⁹ Bourdieu 1986, as in Fn 14, p. 249.
- ²⁰ See Putnam 1993 as in Fn 16 and Putnam, Robert D. "Bowling Alone: America's Declining Social Capital." *Journal of Democracy*, 6(1), 65-78.
- ²¹ Bebbington, A. and Perreault T. "Social capital, development and access to resources in highland Ecuador," *Economic geography*, 1999, vol. 75.4, p. 395-418; Portes, A., and J. Sensenbrenner, "Embeddedness and immigration: notes on the social determinants of economic action," *American journal of sociology*, 1993, vol. 98.6, p. 1320-1350.
- ²² Coleman, 1988 as in Fn 15 pp. 98, 105
- ²³ Burt, R., "The social structure of competition," in: Nohria, N. and R. Eccles (eds.), *Networks and organizations, structure, form and action*, Harvard Business School Press, Boston MA, 1992; Burt, Ronald S. "The Contingent Value of Social Capital." *Administrative Science Quarterly*, 1997, 42, pp. 339-365.
- ²⁴ *Collins Cobuild English Language Dictionary*. London & Glasgow: Collins, 1987, p.966. See also B. Wellman, S. D. Berkowitz, *Social Structures: A Network Approach*. Cambridge: Cambridge University Press, 1988.
- ²⁵ D. Held & A. McGrew, D. Goldblatt & J. Perraton, *Global Transformations: Politics, Economics and Culture*. Polity Press, 1999, pp. 259-282.
- ²⁶ Castells, M., *The Rise of Network Society*, Oxford: Blackwell, 1996, p.165.
- ²⁷ Messner, D. *The Network Society: Economic Development and International Competitiveness as problems of Social Governance*. London: F.Cass in ass. with the German Development Institute Berlin, 1997.
- ²⁸ Perkmann, M. "The two network societies," *Economy and Society*, Vol. 28, No. 4, 1999 (pp. 615-628), p. 620.
- ²⁹ Stark, D. and Vedrez, B., "The social times of networks spaces: sequence analysis of network formation and foreign investment," presented at the Workshop on Networks and Markets (Santa Fe Institute, May 2003). Quoted from the manuscript, p.4.
- ³⁰ Polanyi, K., "The Economy as Instituted Process," pp. 243-270 in *Trade and Market in the Early Empires* edited by Karl Polanyi, Conrad Arensberg and H. Pearson. Glencoe, IL: Free Press 1957; Wellman, Barry and Scot Wortley, "Different Strokes from Different Folks: Community Ties and Social Support," *American Journal of Sociology*, 1990, 96, pp.558-588.
- ³¹ See Plattner, Stuart, "Economic Behaviour in Markets," in *Economic Anthropology*, edited by Plattner, Stuart. Stanford: Stanford University Press, 1989, pp. 210-221; White, Harrison, *Identity and Control*. Princeton: Princeton University Press, 1992.
- ³² See Macaulay, Stewart (1963/92), "Non-Contractual Relations in Business: A Preliminary Study," pp. 265-283 in *The Sociology of Economic Life*, edited by Mark Granovetta and Richard Swedberg. Boulder: Westview Press, 1992; Burt, Ronald, S. *Structural Holes*. Chicago: University of Chicago Press, 1992.
- ³³ The "positive" and "negative" implications are referred to in inverted commas because their evaluation depends on whether the interests of networks are consistent with the interests of the economy and on the concrete perspective from which the assessment is made. For example, limits that the group or community puts on individuality cannot be seen as outright negative. Studies of stress levels indicate that stress is much higher in so-called "atomized" societies than in network-based societies where individuals might be subject to certain restrictions imposed by networks.
- ³⁴ Woolcock, Michael, "Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework," *Theory and Society*, 1998, 27, pp. 151-208, p. 165.
- ³⁵ The genesis and the functions of networks are somewhat reflected in the nature of the structure (nodes, ties and the "maintenance cost" of the network) that should be explicated. For example, whether one inherits or invests into a self-made network will define the nature of the ties and nodes and the functions of this network. Whether business is the result of an existing network or a network is the outcome of business is not perhaps the most important question. It's much more crucial to see the dynamic process in which social relationships facilitate or impede the development of market institutions.
- ³⁶ Fainsod, M. *How Russia is Ruled*. Cambridge, Mass., Harvard University Press, 1963.
- ³⁷ Getty, J.A. *Origins of the Great Purge: The Soviet Communist party Reconsidered, 1933-1938*. New York: Cambridge University Press, 1986.
- ³⁸ Rigby, T.H. "Early provincial cliques and the rise of Stalin," *Soviet Studies*, 33, No. 1, January, 1981; "Was Stalin a disloyal patron?" *Soviet Studies*, 38, No. 3, July 1986.
- ³⁹ Gill, G. *The Origins of the Stalinist Political System*. New York, Cambridge University Press, 1990.
- ⁴⁰ Easter, Gerald M. *Reconstructing the State: Personal Networks and Elite Identity in Soviet Russia*, Cambridge: Cambridge University Press, 1999.
- ⁴¹ In Bourdieu's terms, such implicit contract consists of "institutional rites" and gift giving that transform "contingent relations, such as those of neighborhood, the workplace, or even kinship, into relationships that are at

once necessary and elective, implying durable obligations subjectively felt" (Bourdieu 1986 as in Fn14 pp. 249-50 – my italics).

⁴² See Ledeneva A. "Genealogy of *krugovaya poruka*: forced trust as a feature of Russian political culture" in Markova, I. (ed.) *Trust and Democratic Transition in Post-Communist Europe*. Oxford University Press, 2004.

⁴³ Portes and Sensenbrenner, 1993 as in Fn21.

⁴⁴ Meyerson, E.M., "Human capital, social capital and compensation: the relative contribution of social contacts to managers' incomes," *Acta sociologica*, 1994, vol. 37, pp. 383-399.

⁴⁵ In a study on the banking sector Uzzi finds that firms are more likely to get loans and receive lower interest rates on loans if their network of bank ties has a mix of embedded ties and arm's-length ties, see Uzzi, B., "Embeddedness in the making of financial capital: how social relations and networks benefit firms seeking financing," *American sociological review*, 1999, vol. 64.4, p. 481-505.

⁴⁶ Stark, David and Laszlo Bruszt, *Postsocialist Pathways: transforming Politics and property in East Central Europe*, pp.7-8, 82-3; Stark, David and Bruszt, Laszlo, "One Way or Multiple Paths?: For a Comparative Sociology of European Capitalism," *American Journal of Sociology*, Vol.106, No.4, January 2001.

⁴⁷ Portes, Alejandro and Patricia Landolt, "The downside of social capital," *The American prospect*, 1996, 26, pp. 18-21.

⁴⁸ Portes, A., and J. Sensenbrenner, 1993, Embeddedness and immigration: notes on the social determinants of economic action, *American journal of sociology*, vol. 98.6, p. 1320-1350., p. 1338.

⁴⁹ Olson, M. *The Rise and Decline of Nations*, New Haven, Yale University Press, 1982.

⁵⁰ Knack, Stephen and Philip Keefer, "Does social capital have an economic pay-off? A cross country investigation," *Quarterly journal of economics*, 1997, vol. 112.4, p. 1251-1288.

⁵¹ Vladimir Shlapentokh, *Public and Private Life of the Soviet People*. New York, Oxford University Press, 1989.

⁵² Endre Sik, Istvan Janos Toth, "Some elements of the hidden economy in Hungary today" in Tamas Kolosi, Istvan Gyorgy Toth, Gyorgy Vukovich (eds.) *Social Report 1998*, Budapest: Tarki, 1999, p. 100. See also Sik, E. (1994) "Network capital in capitalist, Communist and post-Communist societies" in *International Contributions to Labor Studies*, No. 4, pp. 73-93.

⁵³ Goldman, Marshall I. *The Privatization of Russia: Russian Reform Goes Awry*, New York : Routledge, 2003.

⁵⁴ Fedderke et al. (1999) address three puzzles associated with the concept of social capital. First, they pose the question whether more social capital is always better for purposes of economic growth (non linearity issue), whether over time economic development may bring the need for different forms of social capital (dynamic puzzle) and whether any society at a given point in time is likely to be characterized by rival, competing forms of social capital, and that it matters which comes to predominate (local optima puzzle). See Fedderke, J., R. De Kadt and J. Luiz, Economic growth and social capital: a critical reflection, *Theory and Society*, 1999, vol. 28, p. 709-745.

⁵⁵ Clubs and circles may in turn transform into ambitious cliques thus creating "parallel power systems." Wedel, Janine R., *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe 1989-1998*, New York: St. Martin's Press, 1998.

⁵⁷ My research was prompted by the question "what kind of networks existed under the Soviet regime and do they continue to exist", see Ledeneva, 1998 as in Fn11.

⁵⁸ Castells, M. *The Rise of Network Society*, Oxford: Blackwell, 1996.

⁵⁹ Castells, M. & E. Kizelyova "Russia and the network society: an analytical exploration," paper prepared for the Conference on "Russia at the End of the 20th Century," School of Humanities and Sciences, Stanford University, 5-7 November, 1998, downloadable from www.stanford.edu.

⁶⁰ See Li Bennich-Bjorkman's research of the networks of political elite in Latvia as in Fn10.

⁶¹ Kasianova, Kseniya *O Russkom Natsional'nom Kharaktere*. Moskva: Institut Natsional'nykh Modelei Ekonomiki, 1994.

⁶² See Volkov, Vadim *Violent Entrepreneurship*, Cornell University Press, 2002.

⁶³ See Pleines, Heiko "Large-Scale Corruption in the Russian Banking Sector" and other articles in Ledeneva, Alena & Marina Kurkchian, *Economic Crime in Russia*. Kluwer Law International, 2000.

⁶⁴ Woolcock (1998) as in Fn34 uses the term *amoral familism* to describe the presence of social integration within a group but no linkages outside this group. In his view, amoral familism undermines the efficiency of all forms of economic exchange by increasing transaction costs. On the other hand there is amoral individualism. In this case there is no familial or generalized trust at all and only narrow self-interested individuals exist. Individuals are not embedded in a cohesive social network. The term first used in Edward Banfield, *The Moral Basis of a Backward Society*. Chicago, The Free Press, 1958.

⁶⁵ See Ledeneva, A. "Informal networks and civil society in post-Soviet society," *Pro et Contra*, special issue on Civil Society, Fall, 1997.

⁶⁶ See the Working paper 45 for the *guanxi/blat* comparison.