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**Interest groups, Central Eastern European states and policy-  
making post the 2008 financial crisis: A comparative approach**

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## Abstract

Interest groups are playing an increasingly prominent role in policymaking across Europe. Unfortunately, current research focuses mostly on Western Europe, with little work conducted with respect to Central and Eastern Europe (CEE). This paper proposes a research framework to examine the role and the impact of interest groups on policy responses within the context of the 2008 financial crisis in CEE countries. I argue that an analysis of this area can provide us with valuable information on the policymaking processes in CEE countries, their governance structures and the political cleavages that have formed across Europe. In addition, such analysis may offer valuable knowledge that can be cross-pollinated with other fields. I propose that future scholars utilise theoretical concepts that consider the roles of non-state actors across two layers of governance: multilevel governance and liberal intergovernmentalism.

I review the literature examining the effects of the crisis in CEE countries. The results of this review show that great variation occurred in the region as a result of different development trajectories. Consequently, different states experienced different pressures with respect to policy. While bearing in mind the limited research on interest groups in CEE countries, I recommend the use of a comparative, qualitative case study. The selected countries act as case studies in which each represents common characteristics of a larger group. These countries are Poland, Hungary, Lithuania, Bulgaria and Ukraine. The methodology proposes the creation of an original database that will contain the main interest groups' responses and the policy responses to the crisis in each case. To construct this database, I suggest triangulating data collected from interviews with policymakers, (non-) academic articles and interest group registries. Through a second round of interviews, I will identify the main policy responses in each case, the responses that were impacted by the interest groups, and which interest groups played a significant role in the case. Finally, based on this information, I propose that scholars utilise network analysis to identify the existing domestic and transnational policy networks. Future research can reveal more about the broader policymaking processes in CEE countries.

## 1. Introduction

*"Any organisation which seeks to exercise influence on political-decision making, in order to promote some change which otherwise might not occur, or to prevent some change which otherwise might occur."*<sup>1</sup>

Interest groups are becoming increasingly involved and playing an increasingly important role in European policymaking. Increased integration across European countries and a shift in policy from the national level to the supranational and sub-national levels empower these actors. However, prior research on interest groups has primarily focused on Western Europe and, more specifically, their role in Brussels and the Member States. To date, the literature has neglected the Central Eastern European (CEE) states. Following the 2008 financial crisis, researchers have examined and justified the European countries' policy responses from an international relations perspective. Scholars have examined the intergovernmental bargains made between CEE states and international organisations (e.g., the European Union

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1 Definition on interest groups: Roberts, Geoffrey: Linkage organisations: interest groups, in: Hogwood Patricia/ Roberts, Geoffrey K. (eds): European politics today. Manchester University Press: Manchester and New York, 2003.

(EU) or the World Bank (WB)<sup>2</sup>). As a result, researchers have largely analysed the policies undertaken by CEE countries at the macro level and ignored the multilevel governance network<sup>3</sup>. Thus, we know little about the impacts of the various interest groups on the CEE countries' governance structures or their policy responses after the 2008 financial crisis.

This paper is a research proposal that argues for the need to examine interest groups and their impact on policy responses in the wake of the 2008 financial crisis. To that end, I offer a theoretical framework and methodology. This framework consists of five parts. First, I review the role of interest groups in Europe and their growing role in policymaking. I show that the literature has mostly focused on Western Europe and has provided considerably less information on the interest groups in CEE countries. In the second part, I examine the impact of the 2008 financial crisis on CEE countries. Based on the research, I demonstrate that the effects of the crisis in the region vary depending on the different development trajectories of the CEE countries. I argue that this finding results in different types of pressure on the various policy responses across the CEE countries. In the third part, I show how the mainstream theories on European integration have evolved to include interest groups. I specifically examine intergovernmentalism and neofunctionalism, and I propose that the theories that have evolved from these frameworks can be used to examine the interest groups in CEE countries under a common framework. In the fourth part, I analyse the gaps in the literature as well as the benefits of research on the impact of interest groups on policy responses in the wake of the 2008 financial crisis. Additionally, I outline the objectives of this research proposal. Finally, in the fifth part of the paper, I outline the hypotheses and the methodology of the research project.

## 2. Interest Groups in Europe

Over the past 20 years, Europe has experienced its largest ever growth in its number of interest groups. The greater part of this swell occurred in the early 90s. Since then, lobby groups have continued to increase at a slower pace<sup>4</sup>. On the one hand, the increasing integration and competences of the European Union's (EU) Member States indicate that spillover effects may affect a broader common market<sup>5</sup>. On the other hand, European institutions do not have the manpower to quantitatively or qualitatively resolve the rising needs for legislation. These institutions seek information from interest groups on policy-related matters to better assess the impact, implementation and amendments of EU policies. As a result, the receptiveness of EU and domestic officials to interest group representation has been increasing<sup>6</sup>. Interest groups compete over the supply of information and will supply it constantly regardless of its value to appear active and maintain a line of communication with important institutions, such as the

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2 Becker, Joachim and Weissenbacher, Rudy: Dollarisation in Latin America and Euroisation in Eastern Europe, Marburg: Metropolis, 2007. Smith Adrian/ Swain Adam: The Global Economic Crisis, Eastern Europe and the Former Soviet Union: Models of Development and the Contradictions of Internationalization, in: Eurasian Geography and Economics, 2010 (Vol. 51), No 1, pp 1-34.

3 Welch, Stephen/ Caroline Kennedy Pipe: Multi level Governance and International Relations in: Bache, Ian/ Flinders, Mathew (eds): Multi Level Governance, Oxford: Oxford Scholarship, 2004, pp. 127-145, here p. 130.

4 Greenwood, Justin: Interest Representation in the European Union. The European Union Series, New York: General. Palgrave MacMillan: 2007.

5 Garrett, Geoffrey: The European Community's internal market, in: International Organization, 1993 (Vol. 46) No. 2, pp. 533-560.

6 Bouwen, Pieter: Corporate Lobbying in the European Union, in: Journal of European Public Policy, 2002. (Vol. 9) No. 3, pp: 365-390.

European Commission<sup>7</sup>. The more incentives they have or the closer they are to the institution's position, the more valid information they will provide. Interest groups seek to bear the costs in the short term by revealing costly information while achieving gains over the long term<sup>8</sup>. However, in many cases, the interest groups simply collect and assess policies without attempting to directly affect them.

Although the demand for policy is increasing and becoming more complex and technical, the EU has been keen to promote open consultations with interest groups to deal with the issue of the democratic deficit<sup>9</sup>. Under the Treaty of Lisbon, interest groups have been further empowered to serve as tools that can enhance EU democracy<sup>10</sup>. At the same time, the candidate states and countries under the European Neighbourhood Policy (ENP) have been encouraged to engage with interest groups during the policy-making and implementation processes<sup>11</sup>. In doing so, the EU has actively promoted the creation of interest groups across and outside of Europe.

This evolution of non-state actors has affected not only the EU's policymaking process but also our perception of its structure. European integration theories have similarly evolved; neofunctionalism has shifted toward multilevel governance, whereas liberal intergovernmentalism has evolved from intergovernmentalism<sup>12</sup>. I will come back to this point in more detail. Unfortunately, though the results are particularly rich, there seems to be an obvious research bias toward the EU and Western Europe. We know considerably less about the interest groups in CEE countries. Following the collapse of the Soviet Union, there were arguably more pressing issues to be examined with regard to policy in the CEE region. The shift from communism to capitalism and the accompanying structural changes attracted most of the attention from researchers<sup>13</sup>.

Researchers examining the interest groups in CEE countries have taken two main approaches. First, scholars have followed the evolution of labour/trade associations after the Soviet collapse. In most cases, these systems evolved into tripartite structures involving negotiations among the state, the employees and the employers<sup>14</sup>. Scholars have argued that interest group intermediation in CEE countries essentially comprises a form of neo-corporatism. The topics of discussion among these three groups include different policy issues, but the extent of their power differs across the CEE countries. Moreover, the literature recognises different categories of actors based on their broader interests. Although there is some debate on this point, the main groups/actors are the state, privatised industries, the "emerging" private sector, and multinational companies<sup>15</sup>. Second, scholars have conducted independent case stud-

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7 Coen, David: European Business Interest and the Nation State: Large firm Lobbying in the European Union and Member States, in: *Journal of Public Policy*, 1998. (Vol. 18) No. 1, pp: 75-100.

8 Dur, Andreas: Interest Groups in the European Union: How Powerful Are They?, in: *West European Politics*, 1998 (Vol. 31) No. 6, pp 1212-1230.

9 Schmidt, Vivien A: *Democracy in Europe. The EU and National Politics*, New York, Oxford University Press, 2009.

10 Lord, Christopher/ Pollack, Johannes: The EU's many representative modes: Colliding? Cohering?, *Journal of European Public Policy*, 2010 (Vol. 17) No. 1, pp. 117-136.

11 Blavoukos, Spyros/ Pagoulatos, George: 'Enlargement Waves' and Interest Group Participation in EU Policy-Making System: Establishing a Framework of Analysis, in: *Western European Politics*, 2008 (Vol.31) No.6, pp. 1147-1165.

12 Bache, Ian/ Flanders, Matthew: Themes and Issues in Mutli-level Governance, in: Bache, Ian/ Flanders (eds): *Multi-level Governance*, 2004 pp. 1-13, here pp. 5, Oxford: Oxford Scholarship Online

13 Pickles, John/ Smith, Adrian: *Theorising Transition. The Political Economy of Post-Communist Transformations*, New York, London: Routledge, 1998.

14 Cox, Terry M./ Mason, Bob: Interest Groups and the Development of Tripartism in Ease Central Europe, in *European Journal of Industrial Relations*, 2000, (Vol. 6) No. 3, pp.325-347.

15 Roderick Martin/ Anamaria M. Cristescu-Martin: Consolidating segmentation: post-Socialist employment relations in Central and Eastern Europe, in: *Journal of Industrial Relations*, 2004 (Vol. 35), No. 6, pp. 629-646.

ies that focus mainly on civil society groups. These studies examine the impact of these groups from a societal perspective<sup>16</sup>, their effect on specific local cases<sup>17</sup>, their structure and development at the local level<sup>18</sup>, and their role in the democratisation of CEE<sup>19</sup>.

Current research on interest groups in CEE countries provides a general outline of the various actors involved and more specific information on a case-by-case basis. However, these results are not generalisable to the broader context of interests in CEE. Moreover, the literature does not provide information on the density of interest groups per policy area, the strategies utilised by the actors or the interactions between these interest groups and institutions. Furthermore, these studies do not identify the strongest actors or the impact of interest groups on policy. Therefore, we lack crucial information for the assessment of the policymaking process in CEE countries and the impact of interest groups on this process.

When the 2008 financial crisis struck, the researchers who analysed its effect on Europe took on two different stances. On the one hand, scholars examining the EU, its Member States (MS) and the European Monetary Union (EMU) have primarily focused on the role of interest groups in the policy measures adopted by the states and the negotiations that have taken place<sup>20</sup>. On the other hand, scholars examining CEE countries have adopted an International Relations perspective and have focused almost exclusively on the effects of different historical contexts and the development patterns affected by the crisis in the different CEE countries<sup>21</sup>. Although the research on CEE and the 2008 financial crisis is rich and informative, it leaves out an important segment: the effects of interest groups on the policy responses that have followed since the crisis.

Interest groups have not only increased greatly in number in Europe but are also playing an increasingly prominent role in policymaking. Although many prior studies have examined the different aspects of European interest groups, the majority of these studies have focused on Western Europe and the EU. This trend is particularly evident in the research that followed the 2008 financial crisis, as the scholars have assumed different analytical perspectives with respect to the EU and CEE. These divergent perspectives provide an incomplete picture of policy both before and after the 2008 financial crisis in CEE countries, as little examination of the policymaking procedures have taken place. In the following paragraphs, I briefly examine the existing research regarding CEE following the 2008 financial crisis.

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16 Gorlac, Krzysztof h/ Mooney, Patrick H: Defending Class Interests. Polish Peasants, in Pickles, John/ Smith, Adrian (eds): *Theorising Transition. The Political Economy of Post-Communist Transformations*, New York, London: Routledge, 1998, pp.262-283.

17 Pissarides, Francesca/ Singer, Miroslav/ Svejnar, Jan: Objectives and constraints of entrepreneurs: evidence from small and medium size enterprises in Russia and Bulgaria, in: *Journal of Comparative Economics* 2003 (Vol. 3), No. 3, pp. 503-531.

18 Regulska, Joanna: 'The political' and its meaning for women. Transition politics in Poland, in: Pickles, John/ Smith, Adrian (eds): *Theorising Transition. The Political Economy of Post-Communist Transformations*, New York, London: Routledge, 1998, pp 309-329.

19 Letki, Natalia/ Evans Geoffrey: Endogenizing Social Trust. Democratization in East-Central Europe, in *Journal of Political Science*, 2005 (Vol. 35) No.1, pp. 515-529.

20 Mugge, Daniel: Limits of legitimacy and the primacy of politics in financial governance, in: *Review of International Political Economy*, 2011 (Vol. 18), No. 1, pp. 52-74.

21 Jones, Alun/ Clark, Julian/ Cameron, Angus: The Global Crisis and the Cohesion of Europe, in: *Eurasian Geography and Economics* 2010 (Vol. 51), No. 1: 35-51. Becker, Joachim/ Jager Johannes: Development Trajectories in the Crisis in Europe, in: *Debatte* 2010 (Vol. 18), No. 1, pp. 5-26. Smith Adrian/ Swain Adam: The Global Economic Crisis, Eastern Europe and the Former Soviet Union: Models of Development and the Contradictions of Internationalization, in: *Eurasian Geography and Economics*, 2010 (Vol. 51), No 1, pp 1-34. Mitra, Pradeep K: The Impact of Global Financial Crisis and Policy Responses, in: *Global Journal of Emerging Market Economies*, 2011 (Vol.2), No. 2, pp: 189-230.

### 3. 2008 Financial Crisis & CEE

In the following paragraphs, I briefly review the research conducted on the 2008 financial crisis and its effect on CEE countries. I show that the literature is useful for understanding the macro pressures that led to the various policy responses and for understanding the great diversity of the region. Then, I argue that there are considerable benefits to examining the role of interest groups in the policymaking process, especially within the context of the 2008 crisis.

Researchers examining the effect of the 2008 financial crisis on CEE countries and the countries' subsequent policy responses have focused on the variations of the effects across the region. Their efforts have justified the countries' policy responses. According to Smith and Swain (2010), CEE can be divided into the Central Eastern European states (CEEs) and the Former Soviet Union states (FSUs)<sup>22</sup>. CEEs have a "Euro-centric" trade model that integrates manufacturing exports and labour. These countries are largely connected to the Western European banking system through foreign investments. FSUs have a "Russian-centric" trade model that largely consists of exporting raw materials (i.e., energy resources) and are heavily dependent on remittances from Russia.<sup>23</sup>

Based on Becker and Jager (2010), we can divide the CEEs into three groups: i) the Visegrad countries (i.e., Poland, Slovakia, Czech Republic, Hungary and Slovenia), ii) the Baltic countries (i.e., Estonia, Latvia, and Lithuania), and iii) South Eastern Europe (SEE)<sup>24</sup>. These three groups followed different economic development patterns and, as a result, were affected differently by the crisis. The development of the Visegrad countries is primarily driven by their industrial export sectors. The financial crisis primarily hit these countries in the form of dried-up demand from the EU-15 countries. Poland fared better than the other countries mostly because of its large domestic market. However, in Hungary, the export industry is relatively small, and the country itself had great capital outflows because of the population's high consumption of foreign currencies. Similarly, the Baltic countries used rigid exchange regimes and were hit with high current account deficits, whereas capital inflows led to a real estate bubble and created indebted middle classes. SEEs also followed a path similar to those of the Baltic countries, although Bulgaria and Romania suffered from a smaller real estate bubble because of their lower levels of exposure to foreign capital.

These findings suggest that all of the CEE states, including FSUs, faced different internal and external sources of pressure, even though they were all affected by the crisis. From an external point of view, the Austrian banks were exposed largely to the CEEs, and the Swedish banks were exposed to the Baltic countries, especially Latvia. However, to a smaller extent, Greece and Italy were exposed to the SEEs. The financial sector of the Commonwealth of Independent States (CIS) had less exposure to foreign banks, but with diminishing remittances from Russia and slumping energy prices, the most they can hope for is Russian "assistance". From an internal perspective, although all countries had to deal with

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22 Here, CEE countries include the Baltic states, the Southeastern European states, Ukraine, and Azerbaijan. FSUs include Russia and the Commonwealth of Independent States (CIS). Smith Adrian/ Swain Adam: *The Global Economic Crisis, Eastern Europe and the Former Soviet Union: Models of Development and the Contradictions of Internationalization*, in: *Eurasian Geography and Economics*, 2010 (Vol. 51), No 1, pp 1-34.

23 Drahokoupil, Jan/ Myrant, Martin: *Varieties of capitalism, varieties of vulnerabilities: Financial crisis and its impact on welfare states in Eastern Europe and the Commonwealth of Independent States*, in: *Historical Science Research*, 2008 (Vol. 2), No. 35, pp. 266-295

24 Becker, Joachim/ Jager Johannes: *Development Trajectories in the Crisis in Europe*, in: *Debatte* 2010 (Vol. 18), No. 1, pp. 5-26.

rising unemployment and current account deficits, their situations greatly varied. The Visegrad countries primarily concentrated on industrial production, whereas the Baltic countries, the SEEs, Hungary and Ukraine had to deal with a financial crisis that had spilled over to other sectors, which led to intensively contracting economies and high unemployment rates. Political unrest was more intense in countries that lacked industries and that mostly had service-based economies as well as financial exposure to foreign capital. Hungary's government threatened to default on its loans because of interest group pressure in the form of public protests<sup>25</sup>. EU membership and the exposure of the EU banks helped the CEEs by providing a small amount of funds<sup>26</sup>. Austria advocated a 100 billion euro rescue fund to protect its banks that were exposed to foreign capital<sup>27</sup>. The SEEs were less lucky, as Greece was not in a position to demand more bailouts.

In this section, I reviewed the main literature examining the CEE countries' levels of exposure to the financial crisis. Previous scholars have primarily analysed economic development variation and, from this perspective, tried to explain the countries' policy responses. As a result, there has been less research on the impacts of the various interest groups on these policy responses. I argued that these different circumstances indicate that different types of internal/external pressure were exerted by the interest groups. In the next section, I argue that an in-depth examination of the effects of interest groups on the policy responses that followed the 2008 financial crisis in CEEs can provide useful insights.

#### 4. Theory and Interest Groups

The increasingly prominent role of interest groups can be traced by examining the evolution of the mainstream theories on European integration. Because this project aims to examine the role and impacts of various interest groups on the CEE countries' policy responses to the crisis, these theories act as a functional tool that can classify in an ordinal manner the influence of the lobbies on the policymaking process. I provide additional analysis on this point in the following paragraphs.

The literature surrounding the debate on European integration has primarily used two opposing theories. Neofunctionalism supports the notion that European integration has resulted in a progressive shift of power from the national level to the supranational level<sup>28</sup>. Intergovernmentalism suggests that the nation-state remains the central actor despite the effects of the European integration process<sup>29</sup>. As I mentioned in the previous paragraph, the political structure of Europe has evolved to include smaller actors and has shifted toward a pluralist form of intermediation. In addition, starting with Structural Policy reform in the late 1980s, EU policy has created several new levels of governance. This practice of policy formulation and implementation has created a fluid structure that is constantly redesigned along with the overall European project. Moreover, the theoretical framework has followed suit; intergovernmentalism has evolved into Liberal Intergovernmentalism (LIG), and Multilevel Governance (MLG)

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25 Buttonwood: Sovereign Debt Crisis. Hungary like the wolf, in: *Economist* June 4th 2010.

26 Buttonwood: Stand by me. Western banks have supported their eastern European subsidiaries—so far: in *Economist* Jun 11th 2009.

27 Becker, Joachim/ Jager Johannes: Development Trajectories in the Crisis in Europe, in: *Debatte* 2010 (Vol. 18), No. 1, pp. 5-26.

28 Garrett, Geoffrey: The European Community's internal market, in: *International Organization*, 1993 (Vol. 46) No. 2, pp. 533-560.

29 Moravcsik/ Andrew: Preferences and power in the European Community: a Liberal Intergovernmentalism approach; in: *Journal of Common Market Studies*, 1993 (Vol. 31), No. 4, pp. 473-524.

developed as the result of a modification to neofunctionalism<sup>30</sup>. In Multilevel Governance, the Multilevel aspect refers to the increased interdependence among governments that operate at different territorial levels. The Governance aspect refers to the growing interdependence between governments and non-governmental actors at various territorial levels.

In comparison with MLG, LIG has received less critique as a theoretical framework. To an extent, scholars have neglected LIG because of the work Moravcsik has put into the debate<sup>31</sup>. Moravcsik has solidified LIG as a theory and has forced MLG supporters to produce strong argumentative points that, in turn, have improved their theory. Attempting to distance MLG from neofunctionalism is an impossible task and one without any rewards. Both theories accept the importance of actors in the EU integration process and the significant role that they have come to play because power is transferred from the nation-state to supranational institutions. However, unlike neofunctionalism, MLG recognises the multiple levels of governance in the EU and the abilities of the actors to jump from one point to another<sup>32</sup>.

Regarding the connection between these theories and the various interest groups, the focus on smaller actors and new arenas of governance does not indicate that the nation-state plays an insignificant role in interest intermediation in Europe. Researchers have examined the impacts of the different levels of governance (i.e., supranational and domestic) and the nation-state on interest groups<sup>33</sup>. The concept of multilevel governance (MLG) recognises that lobbyists can not only access the supranational and domestic levels of governance but also simultaneously lobby the actors at these levels. The lobby groups can often move to the supranational level and bypass the domestic levels entirely. Consequently, national governments no longer represent the intermediary between the domestic and supranational levels. Until recently, the relevant literature assumed that the lobby groups that are weak at the domestic level move to Brussels<sup>34</sup>. By contrast, liberal intergovernmentalism (LIG) maintains that interest groups are created and remain at the domestic level, whereas the nation-state is the only mediator between the national and supranational level.

Recent empirical investigations have suggested that domestic structures play an important role, as interest groups with better domestic access can more easily move toward multilevel lobbying<sup>35</sup>. Still, domestic strength does not necessarily indicate ties to the national government, as assumed in earlier studies. Because MLG is better perceived as a network, the state does not need to play a central role in MLG<sup>36</sup>. The ability to collect resources and command them at will plays a more significant role in empowering interest groups and allowing them to move to the supranational level. The literature points out that under MLG, interest groups can select the appropriate level of governance for lobbying at different points of the policy cycle. Moreover, MLG empowers lobby groups and allows for the creation of

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30 Welch, Stephen/ Caroline Kennedy Pipe: Multi level Governance and International Relations in: Bache, Ian/ Flinders, Mathew (eds): Multi Level Governance, Oxford: Oxford Scholarship, 2004, pp. 127-145, here p. 133.

31 Welch, Stephen/ Caroline Kennedy Pipe: Multi level Governance and International Relations in: Bache, Ian/ Flinders, Mathew (eds): Multi Level Governance, Oxford: Oxford Scholarship, 2004, pp. 127-145, here p. 134.

32 Welch, Stephen/ Caroline Kennedy Pipe: Multi level Governance and International Relations in: Bache, Ian/ Flinders, Mathew (eds): Multi Level Governance, Oxford: Oxford Scholarship, 2004, pp. 127-145, here p. 135.

33 Eising, Rainer: The Political Economics of State-Business Relations in Europe. London, New York: 2010.

34 Princen, Sebastiaan/ Kerremans, Bart: Opportunity Structures in the EU Multi-Level System, in West European Politics, 2008 (Vol. 3), No. 6, pp. 1129-1146.

35 Beyers, Jan/ Kerremans, Bart: Critical resource dependencies and the Europeanization of domestic interest groups, in Journal of European Public Policy, 2007 (Vol. 14) No. 3, pp. 460-481.

36 Borjel, Tanja A./ Heard-Laureote, Karen: Networks in EU Multi-level Governance and Contributions, in: Journal of Public Policy, 2009 (Vol. 29), No. 2, pp. 135-152.

for a<sup>37</sup>. When contrasting the two frameworks, we find that MLG is a richer tool for analysing interest group activities in policy sectors that are largely controlled at the supranational level, as we are more likely to observe lobbying at multiple levels<sup>38</sup>.

In sum, the literature appears to be moving away from analytical tools and concepts that cannot examine complex governance structures. Instead, it is increasingly embracing tools that can analyse across multiple governance levels, access points and actors. To assess the role of interest groups in the policy responses to the crisis, I utilise MLG and LIB as the opposing poles of a common theoretical framework. The extent of their involvement in the policymaking process can be understood along a continuum that shows their ability to affect different levels of governance. This framework allows us to express the power of interests over the state and, thus, their role in the policymaking process. Moreover, it facilitates our ability to depict the multilevel networks.

I showed that the primary theories on European integration have evolved to include interest groups and multilevel governance structures. As the polity structure becomes more complex and as more actors become involved across more arenas, these analytical tools become more useful for depicting the policymaking process. For this reason, I use MLG and LIB under a common theoretical framework for the analysis in this research proposal. In the following sections, I outline the literature gaps, and I identify the objectives of this research proposal.

## 5. Literature Gaps & Research Objectives

### 5.1 Literature Gaps

The literature on interest groups in CEEs outlines the environments in which they operate. However, there is little research on the interest groups' strategies, venue shopping, and networks. In addition, little is known about the interest groups' roles in the policymaking process. The result is a top-down view of policymaking in CEE countries, where the government creates and implements policy with little to no information exchange. Moreover, we do not know who the significant actors in the different policy areas are. This perspective is not only a simple view of the policymaking process, but it also avoids examining the micro-interactions across the multilevel governance structures. Furthermore, this view ignores the increasingly prominent role of private actors in the policymaking process. As more SMEs are established, more NGOs gain experience and more MNCs enter the CEE arena, these private actors will have an increasingly important role to play in advocacy. Overall, the literature leaves a blank spot on the governance map of Europe.

In the context of the 2008 financial crisis, a better understanding of the role of interest groups can provide analytical advantages. First, we will be able to better appreciate the nature of the policies created in the wake of the crisis. We will know more about the actors involved in the creation and implementation of the policies, their preferences and the strategies used to advocate their positions. Moreover, research in this area can reveal the networks created<sup>39</sup> across the multilevel structure and allow us to

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37 Coen, David: Empirical and Theoretical Studies in EU Lobbying, in: *Journal of European Public Policy*, 2007 (Vol. 14) No.3, pp. 333-345

38 Kluver, Heike: Europeanization of Lobbying Activities: When National Interest Groups Spill Over to the European Level, in: *European Integration*, 2010 (Vol. 32), No. 2: 175-191.

39 Borjel, Tanja A./ Heard-Laureote, Karen: Networks in EU Multi-level Governance and Contributions, in: *Journal of Public Policy*, 2009 (Vol. 29), No. 2, pp. 135-152.

observe any potential cleavages created during this process. Furthermore, by depicting the existing networks, we can assess the strengths and weaknesses of the economic governance models used in CEE and Western Europe as well as any resulting political cleavages. In doing so, we can improve the governance structure, contribute to its efficiency and also provide security for the future by utilising our improved knowledge as a warning system. Second, a greater understanding of the role of interest groups will increase the transparency of the governance structures. Mapping the relationships between the interest groups and the government allow us to control for the increasing number of actors. One must bear in mind that increased integration of the European countries implies that more domestic policy fields from the CEEs are added to the supranational arena. As a result, more interest groups will pour in from outside, as they will find more opportunities, whereas other groups will move outwards. Third, from a research perspective, this information can prove useful for comparative studies and cross-pollination with other fields from Western Europe and North America<sup>40</sup>.

In this section, I argued that, although the existing research on interest groups in CEEs provides a basic outline, it leaves out several important aspects. As a result, the important parts of the policymaking process are left unexamined, which has led to a limited understanding of the responses in CEEs with regard to the 2008 financial crisis. Further research in this area can provide the following: benefits to our knowledge of the policymaking process in CEEs and political cleavages across Europe; increased number of tools designed to improve governance structures; and more valuable information for comparative studies in the field.

## 5.2 Research Objectives

Based on the above information and the CEE countries' policy responses to the 2008 financial crisis, the proposed research project will accomplish the following tasks: identify the main interest groups involved in the policymaking process and their advocacy strategies; examine the role of interest groups and their impact; identify the main actors (i.e., interest groups and policymakers), who they lobby and their interactions amongst one another; create a map of these interactions within and across CEEs based on the data collected and by using network analysis; and determine whether policymaking has shifted toward non-state actors by using the theoretical framework of MLG and LIB. In the following section, I provide the operationalisation of the research proposal.

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40 Mahoney, Christine/ Baumgartner, Frank: Converging Perspective on Interest Group Research in Europe and America, in: *West European Politics*, 2008 (Vol. 31) No. 6, pp. 1253-1273.

## 6. Methodology

### 6.1 Hypotheses

The research agenda of this project is operationalised as follows;

#### **Hypothesis 1: CEEs exhibit more lobbying activities than FSU states.**

I expect to observe more lobbying activities in CEEs for two reasons. First, CEEs are exposed largely to the demands of the foreign markets and foreign capital<sup>41</sup>. Thus, external actors (e.g., banks and industries) have vested interests in these countries' policy responses following the 2008 financial crisis. I expect that foreign interests will lobby to represent their interests in the countries' domestic agendas. For example, foreign interest groups will seek to keep taxes low and direct the country's resources toward loan repayments. I expect that these groups will primarily lobby at the national level to shift the attention of the parliaments and the bureaucrats toward formulating policies addressing their issues. Similarly, I expect the groups to lobby at the supranational level to secure stabilisation and bailout funds for the states in which they hold vested interests. Because large parts of the FSU countries' economies are still nationalised, the likelihood that they will form aggressive policy responses against foreign interest groups (e.g., increased taxes) is low. At the same time, there are comparatively smaller FDI flows that indicate that smaller incentives for external sources of pressure on policy responses exist<sup>42</sup>. Because fewer foreign investors are interested in the policy responses of their governments, there is less lobbying against these governments. Because the discussions about financial assistance between the CIS and Russia<sup>43</sup> take place within an intergovernmental context, the lobbying activities remain in the hands of the government, not the interest groups. Finally, because FSUs maintain highly centralised governments (in some cases oppressive governments), governance is by definition less developed and even less so across levels.

Second, the CEE countries exhibited comparatively more social and political tension than the FSUs. This increased tension is the result of the middle stratum that was victimised by the burst of the real estate bubble. Thus, the lobbying activities of interest groups will increase for two reasons. First, advocacy groups (e.g., labour unions) will begin to represent their members as demand for their service increases. Unions, associations and other interest groups will engage with the policymakers to shift the country's policy responses closer to the groups' preferences. Second, because of the economic crisis, policymakers are in an uncomfortable position, as their legitimacy is questioned<sup>44</sup>. To increase their legitimacy, they must produce better legislation (i.e., output legitimacy) and/or increase the representativeness of this

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41 Smith Adrian/ Swain Adam: The Global Economic Crisis, Eastern Europe and the Former Soviet Union: Models of Development and the Contradictions of Internationalization, in: Eurasian Geography and Economics, 2010 (Vol. 51), No 1, pp 1-34.

42 Drahoukoupil, Jan/ Myrant, Martin: Varieties of capitalism, varieties of vulnerabilities: Financial crisis and its impact on welfare states in Eastern Europe and the Commonwealth of Independent States, in: Historical Science Research, 2008 (Vol. 2), No. 35, pp. 266-295

43 Mitra, Pradeep K: The Impact of Global Financial Crisis and Policy Responses, in: Global Journal of Emerging Market Economies, 2011 (Vol.2), No. 2, pp: 189-230.

44 Muggge, Daniel: Limits of legitimacy and the primacy of politics in financial governance, in: Review of International Political Economy, 2011, (Vol. 18), No. 1, pp. 52-74.

legislation (i.e., input legitimacy). Because policymakers are more receptive to interest groups, I expect increased levels of activity across all levels of government.

In sum, CEEs have been hit hard by the financial crisis. However, unlike FSUs, the affected CEE interest groups have more vested interests and advocate more strongly to provide security for the groups' investments. In addition, the population has been adversely affected in that the middle stratum, which represents a larger portion of the population, has been hit harder by the crisis. As a result, the demand for interest groups has increased, which has stimulated their levels of activity. Finally, the policymakers are in a tough spot, as their legitimacy deteriorates the longer the crisis persists. To increase their legitimacy, they must become more open to interest groups. Accordingly, the lobbyists will exert greater efforts to influence policy.

### **Hypothesis 2: Foreign interest groups have a greater impact on policy in CEEs than in FSUs.**

I expect that the interest groups based in countries outside CEE will exert larger impacts on CEEs than FSUs for two main reasons. First, CEEs are more exposed to foreign interests. In contrast, FSUs are exposed to demand from foreign energy markets. As a result, the level of interest in the policy responses taking place in FSUs is low. Furthermore, because CEE economies are more integrated with Western markets and more dependent on the stability provided by their financial markets, CEE economies are more sensitive to the countries' policy reactions. Though domestic interests will try to push their points on the policy agenda, they will have a harder time doing so, as they have a smaller role in relation to the crisis.

Second, the demand for information on policy is higher in CEEs than in FSUs. The 2008 financial crisis requires policy responses of a highly technical nature from the countries with exposed banking sectors in which regulation is considerably complicated. The bureaucrats do not have the manpower to engage with the technical demands of the policy responses and are more willing to listen to potential options. In contrast, the FSUs' responses to the financial crisis demand simpler policy reactions, such as welfare programs.

Third, because of the sensitivity of their economy to non-domestic interests, the policymakers in CEEs are more likely to relent to pressure coming from these interests. As argued previously, CEE governments are highly sensitive to interest groups because of their reduced levels of legitimacy, as indicated by the increased number of protests<sup>45</sup>. Because resources are limited, CEE policymakers will have to eventually make tough decisions to secure the stability of their countries and their public popularity, which might eventually lead to stagnation. In other words, foreign interest groups are related to crucial policy areas and can retaliate if the policy responses are not close to their positions<sup>46</sup>.

In sum, I expect that the CEEs' policy responses will be more affected by foreign interests than the FSUs' policy responses. The greater level of exposure to foreign capital will cause greater lobbying efforts on the whole. This increased level of lobbying has qualitative effects as well because in the policy areas that demand responses in highly technical fields (i.e., finance), the bureaucrats and government officials

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45 Roderick Martin/ Anamaria M. Cristescu-Martin: Industrial relations in Central and Eastern Europe in 1999: patterns of protest, in: *Industrial Relations*, 2000 (Vol. 31), No. 4, pp. 346-362.

46 Vogel, David: *Trading Up: Consumer and Environmental Regulation in a Global Economy*, Harvard University Press: Cambridge, 1995.

require information and know-how that they do not possess. Finally, the exposure of CEEs to Western banks puts these governments in a tough position. Although tough measures with adverse social effects can cause government popularity numbers to plummet, the need for overall stability forces these governments to pick policy responses that maintain the stability of their economies. Thus, developing interest groups in this field are a high priority for companies.

### **Hypothesis 3: CEEs have more transnational policy networks than FSU states.**

I expect to observe more transnational networks in CEEs than in FSUs primarily because CEEs have traditionally been more integrated with the global economy, especially Western Europe. The “Euro centric” development choice and the fact that many of the CEEs are members of the EU or are heading in that direction indicates that actors can more easily enter their domestic markets. In addition, CEEs have privatised most of the old national industries. As a result, more foreign capital and multinational companies can be introduced within their markets. The networks created at the domestic level are likely to overlap more among CEEs than among FSUs. Although FSUs also exhibit a high degree of integration, their economies are based on energy exports. Even if there is trade amongst these countries, the trade will not approach the complexity of the industries in CEEs. Cars or services require the constant exchange of goods, but extracting oil or gas is a simpler process. As a result, the networks will have looser connections among CEE countries.

In sum, the integration of CEEs with Europe and the global markets results in more transnational networks within CEEs in comparison with FSUs. In contrast to FSUs, CEEs are essentially a part of the EU project and have interlocked their markets in sectors that are more dependent on the constant supply of goods.

## **6.2 Data Requirements**

For H1, we require information on the lobbying activities of the interest groups in CEE. For H2, we require information on the impacts of the domestic and foreign interest groups on each country’s policy. For H3, we require information on the contacts of these interests groups within and outside of their location.

This research proposal focuses on specific CEE countries and adopts a comparative approach to show the role and the impacts of interest groups on post-2008 political policies in CEEs while controlling for specific variables. First, because too many CEE countries exist, a study of the entire region demands large amounts of resources and time and requires the involvement of several researchers. Second, even if the resources were available, the absence of previous substantial prior research in the field makes such an investment of such a large scale a risk. Without a preliminary examination of multiple representative cases, the benefits of a full-scale study are not apparent. Finally, for specific CEEs, because of the domestic political conditions, interest group activity is limited and possibly non-existent, which renders research on these countries worthless.

Therefore, out of the total population of CEEs, I excluded Belarus and the CIS because research on the interest groups in these countries has little value on a comparative basis. In most cases, the political systems are too oppressive to allow the creation of interest groups or at least genuine interests that are not aligned to the central government. As a result, there will be little variation in the data and results. In

addition, I excluded Russia from the population for two main reasons. First, Russia is major global actor and a foundation upon which certain CEEs have focused their development. In that sense, Russia does not represent similar cases within the region, as it is an independent case. Second, Russia has vast territory composed of various regions, each of which features different development patterns. This diversity increases the difficulty of controlling for the effects of certain variables on the country's post-crisis policy responses. In addition, because national policy responses are hard to disaggregate from the regional policy preferences, the validity of the research is reduced. Assessing the role of interest groups in the Russian policymaking process is not only an interesting topic but can also help better explain policy responses at an international level. Therefore, a separate study on Russia is required to do justice to the research demands of a Russian case study.

From the remaining countries, I selected five countries as my case studies based on the variables identified as significant in the literature. More specifically, I selected Lithuania, Poland, Hungary, Bulgaria and Ukraine. The variables include the following:

1. Development trajectory, which is defined according to the country's level of exposure to foreign capital and the percentage of GDP coming from industrial production. These data are derived from the World Bank
2. Whether the country belongs to the European Union.
3. Where the group originally came from and whether the interest group is foreign or domestic, which is defined by whether the group has multiple headquarters across countries.
4. Multiple levels of government, which are divided into three levels: supranational, national and sub national government.

### 6.3 The Cases

**Poland:** Poland serves as a case study representing the following Visegrad countries: Czech Republic, Slovakia, and Slovenia. Poland has promoted its development by exporting its production to Western Europe. In addition, its banks are less exposed to toxic assets, and its market is not as dependent on foreign credit. Finally, Poland is a significant actor among the CEE states, as it has a big population and a large domestic market.

**Hungary:** Hungary serves as a case study for CEEs that have extensive foreign capital in their markets, are running high current account deficits and are suffering from a domestic real estate bubble. These CEEs do not include the Baltic states or SEEs, which are treated as different cases mostly because the Baltic states and SEEs are exposed to Swedish banks, whereas Hungary is mostly exposed to Austrian banks.

**Lithuania:** Lithuania serves as a case representing Baltic countries. Lithuania faces high current account deficits because of extensive foreign credit, which has led to a domestic real estate bubble. Moreover, Lithuania has a service-based economy tied to Western Europe and is facing pressure from the EU and Sweden because of their banks' extensive lending practices.

**Ukraine:** Ukraine has suffered a fate similar to that of Hungary. Ukraine is running high current account deficits due to extensive credit and exposure to foreign capital. However, Ukrainian banks have suffered to an extent on their own, as they have loaned excessive amounts of money to the domestic population

while relying on high energy prices. Ukraine is oriented closer to the Western banks, but it also has important trade relations with the Russian economy while, at the same time, applying subtle internal changes under the ENP. Moreover, the country's characteristics can act as controls. Its size and geographical location might have some effects on the interest groups' activities, as these factors play a role in other areas.

**Bulgaria:** Bulgaria serves as a case study for SEEs. To some extent, it has suffered from exposure to both foreign capital and a housing bubble. Its production has slumped as the credit markets have declined. At the same time, it is facing an opposite wave of growth from its "emerging" private sector. Moreover, because the Greek banks' exposure to Bulgaria has not generated funds for bailouts, Bulgaria needs to come out of this crisis mostly through its own efforts.

## 6.4 Method

This project adopts a qualitative approach because no extensive research exists on interest groups in CEEs, especially with respect to policy impact. We know little about their qualitative and quantitative characteristics. As this project primarily answers "how" questions, a qualitative approach will serve as a better fit<sup>47</sup>. However, because previous scholars have already produced a rich amount of research and theory with regard to interest groups and their activities in Western Europe, North America and parts of CEE, we will not conduct an exploratory study. In addition, the proposal compares selected cases of countries while controlling for specific variables to examine the variations in the causal relationship among multiple variables, including interest group effects on policy and development trajectories. Therefore, this research proposal consists of a comparative, descriptive and explanatory case study. It adopts a holistic view by examining the different CEE states as individual units taken from the entire population of CEE countries.

## 6.5 Data Collection and Analysis

This study will create an original dataset of interest groups and policy responses with regard to the crisis in CEE by performing data triangulation. First, we will identify the main interest groups and policy responses by sifting through the available academic articles, officials reports (e.g., OECD) and articles in international popular journals (e.g., Economist and Financial Times). Second, we will conduct interviews with policymakers (e.g., members of parliament, bureaucrats, and regional officers), large firms and national associations. The interview subjects will be asked to identify the interest groups and actors that they consider central to the policymaking process across all government levels as well as significant policy responses. Then, they will be asked to place these actors in a policy domain. Finally, they will be asked to identify significant actors from the national registries of interest groups that are available<sup>48</sup>. We will follow up with a second round of interviews with various groups, including interests groups identified as significant actors. The interview subjects will be asked the following: which interest groups they believe impacted specific policy responses to the crisis; the strategies that they used; which interest groups and policy actors they are currently in contact with through such means as formal/informal meetings and emails; and how often the subjects have contacted these groups on a six-month basis.

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47 Yin, Robert K.: Case Study Research. Design and Methods. 4th Edition: London: Sage, 2009.

48 Lithuania, Poland and Hungary have interest group registries. The Commission Interest Representative Registry (RIR) also has relative information (OECD 2010).

Based on the information provided by the second round of interviews, I will code each policy response for whether they were impacted by the interest groups. "Impacted" denotes major revisions to the policy proposal. In addition, I will create a dataset with the number of contacts made. The actors will be divided into policymakers (e.g., government, parliament, MPs, and ministries) and interest groups. Using network analysis, I will map the policy network on the domestic and supranational level. The analysis will be able to indicate the strength of the relationships based on the information on the number of contacts provided in the interviews. Moreover, based on the information provided by the network analysis, I will determine the extent to which the interest groups affected the policy process with respect to the theoretical frameworks (i.e., MLG and LIB). Finally, I will compare the results of the aforementioned analyses across the sample countries to examine their variations with respect to the different characteristics identified in each case.

## 7. Conclusions

In this paper, I proposed a theoretical framework and methodology to examine the role and impact of interest groups on policy responses after the 2008 financial crisis in CEEs. Initially, I showed that interest groups are becoming increasingly important to the policymaking process and that rich research exists in the field with regard to Western Europe and the EU but not CEE. Furthermore, I argued that this lack of research has caused a limited understanding of the policymaking processes in CEE countries. By reviewing the literature examining the crisis in CEEs, I illustrated the great variation in the effects of the crisis across the states and the pressures facing each state with respect to policy. Based on this overview, I divided CEE into two main parts, CEEs and FSUs. Then, I further broke down CEEs based on a series of significant variables that were taken from the literature. I explicated the benefits that can come from research in this field. These benefits include a better understanding of the policymaking process in CEE countries and improved comprehension of the governance structure, which can assist in improving the structure as well as serving as a warning system for the future. Moreover, research in this area can help identify political cleavages across Europe and help cross-pollinate the fields. In addition, I proposed that research in this area should use theories that can control for the impact of the interest groups on policy and their ability to lobby across multiple levels of governance. Specifically, I argued in favour of a common theoretical framework that utilised both MLG and LIB. In the methodology section, I outlined the research proposal to examine the role and the impact of interest groups on the CEE countries' policy responses to the 2008 financial crisis. I argued in favour of a comparative approach, as a cross-country approach is needed to appreciate the variations in the interest groups' roles and impacts.

This proposal is a first step to examining the interactions between interest groups and the policymaking process in CEE countries. Thus, its execution will act partly as a pilot in which the difficulties that may arise must be carefully assessed to overcome them for further research in this area in the future. As Europe continues to integrate, interest groups are becoming increasingly involved in policymaking across all levels of governance and across states. Thus, the demand for research in this area is likely to increase, and we must construct the tools necessary to analyse these complex and fluid governance structures.