



Too Big To Fail

Financial Market Reform in Transition Economies

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Abstract

This dissertation deals with the issue of institutional reform in transition economies. In particular, it studies banking reform in 17 transition economies during their accession to the European Union (EU). It does so by building on the veto player theory often used in the literature on the political economy of reform. However, the veto player theory as traditionally applied seldom take into account the role of special interests. The dissertation aims to fill this gap in the literature by developing a theoretical account of how veto players and special interests interact.

The empirical part of the dissertation, on which the theoretical account is based, consists of two parts. First, a quantitative part that studies the effect of the interaction between veto players and special interest on banking reform during seventeen transition economies accession to the EU. Banking reform is measured through a new dataset based on the Commission Progress Reports. A measure of market concentration has also been developed for the purpose of the thesis, the measure uses data from BankScope (2016), which consists of yearly data for more than 43 000 banks world-wide. Second, the qualitative part of the dissertation consists of two case-studies of Estonia and Lithuania.

The main finding of the dissertation is that neither veto players nor special interests can be studied in isolation, but rather that they should be studied in tandem. How veto players affect the reform capacity of a country will depend on how special interest is structured in the country. At high level of market concentration, additional veto players will make the movement towards full reform more likely. Conversely, at low levels of market concentration additional veto players decreases the likelihood of reform.



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