VARIETIES OF STATE CAPITALISM[1]

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Abstract: *The minimal state concept of the neo-liberal policy agenda was queried worldwide after the 2007/8 global financial crisis. Increased state intervention differed in its scope and durability in various capitalist models. Countries with stable and strong democratic political and market economic institutions witnessed a brief episode of nationalizations that was soon followed by the sale of acquired assets. However, new democracies responded differently. In most emerging market economies, post-communist and developing countries alike, increased state intervention remained in place and was used to various political purposes. These ranged from large-scale development programs to simple political rent seeking. The paper concludes that weak social and international control over political institutions may result in rolling back of democratic political institutions and drastic weakening of market economic institutions, the rule of law and competition.*

Keywords: *state capitalism, rent seeking, corruption, varieties of capitalism, market economy, liberal democracy*

1. Introduction

State has always been an important actor of social life during modern history. Areas and tools of state intervention changed remarkably over time also in connection with social perceptions and political institutions. The role of the state has always been a political issue including its involvement in the economy. Therefore, state performance can be analyzed both from the technical and the political aspect. During the age of modern capitalism three periods of intensive state activity could be observed. As Nölke (2014) rightly indicated, after the late 19th century economic nationalism and the Keynesian (and corporatist) decades of the 20th century, the new period of *statism* in the 2000's is already the third state-led paradigm of the capitalist world. The three periods had very different features from the technical viewpoint (the usage of economic policy tools) but also from the political aspect (whose interests were served by the state intervention). Therefore we can compare the three periods only by proper analysis of not only state policies but also the world economic environment and political conditions of the time. Obviously, the government policy toolkit depended on both internal and external political conditions prevailing political concepts and social perceptions.

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2. Typology of economic and political systems based on the state's role

In a useful analytical approach of the late 20th century transition economies Kornai (2016) differentiated between two main types of economic and political systems. Liberal democracy goes together with free market economy principle. Dictatorship is bound with bureaucratic control and coordination of the economy. Of course, most market economies are somewhere in between. In the group of countries with more stable and long traditions of political democracy and free market economy there are countries that traditionally have more state influence in the economy (France) than others (Britain). The political scene also shows different institutional systems. Market economic institutions are sometimes coupled with weak democratic institutions and influential charismatic leaders. In such autocracies we can usually see high level of centralization in decision making that provides stronger control of the state over the economy. Historically we can also observe in some countries oscillation between the basic state concepts: autocracy (dictatorship) and liberal democracy (Kornai, 2016).

Nations, countries are diverse concerning their historical, cultural heritage, natural and human endowments, level of development. Therefore, Kornai's dichotomy can be applied only on rather high levels of abstraction. The "Varieties of Capitalism" (VoC) literature (see: Hall and Soskice, 2001; Amable, 2003 and many others) identifies significant differences of capitalist models within the relatively homogenous countries of core Europe. This is despite that these countries are regarded as liberal democracies and also free market economies. Moreover, their political orientation and institutional systems were streamlined in the European integration process. The basic principles of economic integration described the potential benefits of increased homogeneity of the single European market. On the other hand, the globalization process has also triggered important spontaneous as well as institutionally initiated streamlining in many areas of social life reaching from consumerism enforced by multinational business to capital market liberalization suggested by international organizations. Nevertheless, Gerschenkornian diversity prevailed. An important object of study within the theme of capitalist diversity is the economic role of the state.

During the late XX century the neo-liberal agenda has developed into a pervasive principle that claimed exclusive influence in economics, economic policy and education (see e.g. Csaba, 2009; Stiglitz, 2010). The neo-liberal approach to the role of the state was rather conservative and emphasized the principle of minimal state. Due to the strong pressure from the monetarist school starting from the mid-1980s pervasive state intervention was scaled back drastically. Ronald Reagan's America and Margaret Thatcher's Britain took the lead in the liberalization and deregulation of the markets. In Britain also massive privatization of state-owned companies took place: direct state intervention was curtailed. To a lesser extent similar policies were applied in many developed economies. Moreover, international organizations (strongly influenced by the USA and its economic policy paradigm) suggested similar policies to countries of different development level and cultural, institutional heritage. Minimal state became a buzzword of the last two decades of the XX century. Liberalization, deregulation, privatization was reinforced in many developing countries and emerging market economies including transition economies of Central and Eastern Europe (CEE).

The agenda produced a rather smooth development pattern in developed market economies. The period of the “Great Moderation” from the 1990s to the 2007 financial crisis showed fairly stable and significant economic growth in the developed part of the world. One could conclude that the minimal state concept could work if proper market economic institutions effectively regulated markets and the economy in general. Warning signs of repeatedly occurring currency crises in Latin-America and South-East Asia were neglected in the belief that on the long run reasons of these problems could be also lifted if market institutions were properly developed. The concept was only slightly amended to consider local circumstances in the implementation of suggested policies. The fundamental goal of introducing liberal market economy in any country was not changed. Also, chaos in the Yeltsin era Russian economy did not shake mainstream economists’ firm belief in the omnipotent minimal state concept (see Fukuyama, 1992). It was shaken only by the 2007 financial crisis that showed the limits of liberal market economic institutions’ regulatory effect in the global economy.

3. Post-2008/9 crisis: Increased state interventionism versus minimal state

Economic concepts were reconsidered in many countries after the 2008/9 world economic crisis. The devastating effect of the unexpected financial crisis could be limited only by massive state intervention. Meltdown of the global financial system was prevented by bailing out the largest global financial institutions in the USA and in Europe. Various techniques were applied. Nevertheless, the outcome was generally a massive increase of state ownership in the financial sector (Voszka, 2017). In some cases too big to fail industrial corporations received the same treatment. The myth of the omnipotent self-regulating markets was blast. The state had to come back in the most developed advocates of the neo-liberal concept, too. The revival of the state has become a general phenomenon in the world economy. However, it affected the various regions and countries differently. The depth and direction of changes in policy concepts regarding direct state intervention very much depended on the historic and cultural heritage. While broad state intervention in the economy has had long traditions in France (Somai, 2017), British or German traditions suggested a more rapid and possibly full retreat (just to take examples from developed world). Emerging market economies in the Third World but also in CEE possessed much weaker market institutions and became rather skeptical about the application of the minimal state concept in their countries already prior to the 2008/9 crisis. Most countries of these regions did not hesitate to take the now much easier opportunity to increase economic intervention of the state for the longer run.

Diffusing empirical evidence of economic policies shows therefore increasing diversity parallel with the weakening of the neo-liberal principles. For example, the European Union continued reinforcing the paragraphs of the Maastricht Treaty in its neighborhood policy (e.g. in the Western Balkans), meanwhile a significant group of EU member states (with the lead of Hungary and Poland) openly queried the validity of the political and institutional fundamentals of the same agreement. State permeated economies (Nölke, 2014; 2015) emerged and played roles in world economic labor division that were previously reserved by mainstream economic thought to highly developed economies only (e.g. foreign direct investments). For decades, economic development in Africa could not be successfully triggered with policies suggested by mainstream international financial institutions but rather by new policy approaches of the past decade that understood better and considered more local realities (see Diao *et al.*, 2017).

The interpretation of post crisis development patterns is by far not straightforward. This is the reason of increased research interest in comparative economics. The evolving concept of state capitalism (Nölke, 2014; Kurlantzick, 2016) regards increased state intervention as the main driver of current changes in the world economy. Current studies on state capitalism emphasize not only the role of the state in economic coordination, but also the multifaceted interplay of social, political and economic institutions affecting various dimensions of state activity. What stands clear is the possibility of parallel existence and development of several capitalist models that have their own internal logic and considerable stability. In this regard, the idea of VoC literature that describes variations within the Western world's free market economy models needs further development.

4. Particularities of the actual phase of state interventionism and the broadening VoC

Earlier, the VoC literature (based on the analytical framework laid down by Hall and Soskice, 2001 and Amable, 2003) did not tackle this issue. The analysis of the state's role was restricted mainly on market regulations and the size of the central budget, degree of income redistribution (see e.g. Sapir, 2006). Research on increased state intervention is in an early stage. Nölke (2014, 2015) put the main emphasis on the development of globally successful national champions in large emerging market economies. By doing this he concentrated on the technical aspect of state intervention in four large emerging market economies (Brazil, India, China, South Africa – BICS). Kurlantzick (2016) compared countries with high share of state owned enterprises (SOEs) in the production from political economy viewpoints (a rather heterogeneous group of countries among others Norway, Singapore or Thailand).

State ownership is just one aspect of spreading state intervention. The current revival of the state in matters of the economy represents a rather complex systemic change that also involves changes in economic and market regulations, development policy, social policies and possesses strong linkages to political institutions. Therefore, comprehensive political economy approach to the role of state in the economy is applicable. We can list some typical features that were frequently observed in countries where state involvement in the economy increased during the 2000s and especially after the 2008/9 crisis. Kurlantzick (2016) listed besides the high share of SOEs in GDP production the general decline of free market policies (as listed by the Fraser Institute). Economic regulation in general became selective, discriminative, and nationalist. Selective policies thwart competition on selected markets: mainly in finance/banking, public utility services, energy, gas and oil industry and supply. These are branches of strategic importance from the political viewpoint: through manipulated prices governments can successfully influence consumption. Imprints of state paternalism from pre-Washington Consensus periods are still strongly felt in many emerging market economies. Therefore, cheap public utility prices are important factors of political competition.

This of course also means deliberate new detour from the classic liberal democratic principles of political competition. Nordhaus (1975) developed the theory of the political budget cycles (PBC), a predecessor of the economy-polity interactions of emerging market economies. The theory argued that average voters were short-sighted and learned slowly, that provided opportunities for the manipulation of elections through excessive public spending. Though some empirical evidence suggested that over several election periods the effect might flatten because of social learning, the 2008/9 crisis seemed to return the tendency. Moreover, recent election campaigns showed an escalation of populism also in highly developed countries of the world. Therefore, there is a worldwide departure from the classic liberal principle of economy and polity separation. Because of these empirical facts the analysis of state capitalism should not necessarily be limited to emerging market economies as has been the case until now.

Another important goal of increased state intervention is the development of national champions. These projects may also have important political implications because they increase national pride and boost the popularity of those politicians and governments who contributed. The economic development agenda is of course not new. Historic evidence puts this motive into the broad context of the core-periphery and developmental state literature (on this later see Ricz 2017). This ambition gained new impetus after the crisis. One important new feature in this regard is the changed international environment where large multinational enterprises increased entry barriers to most markets. It is therefore more difficult to successfully implement national champion development projects. An open question in this context is country size. Large countries can allocate significantly more resources to the usually state-owned national champions. Stable long-term financing of such projects is a primary condition of success. Nevertheless, the mounting evidence of unsuccessful cases calls for caution. Money alone cannot make wonders. On the other hand, there are also successful cases with small countries like Singapore.

However, the national champion development programs, and excessive state ownership can fall easy prey of rent seeking. Kurlantzick (2016) states that the success of state development programs very much depends on the level of corruption. No country is absolutely free of corruption, and also state capitalist regimes show significant spread in this regard ranging from Singapore on the one hand with little state corruption to many post-Soviet countries with high corruption on the other. Systemic corruption has many levels, but the most damage is caused by public procurement tenders directed to cronies. There is ample evidence of big government projects of various countries that cost several times more in public expenditure than similar projects in countries with better public and institutional control on corruption. This practice threatens with the danger that “elite enrichment becomes the primary purpose of state enterprises” (ibid, p. 39). Besides SOEs, also partisan firms’ massive involvement in public procurement raises worries about increasing corruption and deteriorating efficiency in the usage of public money (Szanyi 2016).

Usually slow social learning described in PBC theory substantially deteriorated after the 2008/9 crisis. Washington Consensus promised welfare returns attached to increasing political and economic freedom that favored the middle class. But voters’ dissatisfaction with political freedom increased due to widening inequalities. After the 2008/9 crisis benefits realized by the middle class were also reduced. Increased state intervention therefore challenged the model of democracy and free market economy and promised welfare gains through increased state activity instead. This new attitude was perceived and welcomed by the societies of many countries as the revival of old paternalistic traditions. Changes in the perception of neo-liberal concept were reinforced also by the political elites that lacked personal commitment to democracy and free market economy. Kurlantzick (2016) listed many examples of elected political leaders becoming autocrats who effectively rolled back democratic institutions with voters' support in order to strengthen their political positions. The robustly expanding state sector played significant role in this process.

The short list of successful state led development models (mainly in East-Asia) can not overshadow the potential flaws of excessive state intervention. These are connected to high levels of moral hazard, especially if business and polity relationships are not under institutional and social control. As it was mentioned, there have been many attempts to roll back democratic institutions in emerging market economies, thus, the danger of moral hazard is growing. There have been corruption scandals in many countries from China through Hungary to Brazil. Some of these cases reached highest political circles, like the imprisonment of former Brazilian president Lula. But besides corruption and outright theft there is also wide spread political rent seeking like overspending on social goals for political support (PBC) or on prestigious national programs like world soccer championships or Olympic games (Brazil, Russia, South Korea). State owned firms played an outstanding role in rent seeking and overspending.

5. Conclusion

Summing up, the weakening of the neoclassical paradigm after the 2008/9 crisis and the resulting increase in state intervention affected countries with different development levels (also concerning democratic institutions) differently. Social control, institutional embeddedness of the competition state concept prevented more developed countries from directly slipping into more autocratic system solutions. In countries with weaker and less traditional market economic and democratic political institutions erosion of these has started. Emerging state capitalist systems used increased state ownership for their own political legitimation and rent seeking. SOEs can be developed to globally competitive national champions, which can participate in politically motivated large development projects. They can also serve political rent seeking (in new forms of state paternalism) and also the enrichment of influential political lobbies. The balance between social goals and personal or partisan goals also depends on the strength of social control. Stronger control will induce policies targeting more social goals that serve political self interest (e.g. re-election) only indirectly through rising popularity. This impact is not much different than excessive budgetary spending of PBC. However, deliberate rolling back of social institutions and increasing populism works in the opposite direction giving way to more direct forms of rent seeking. This in turn endangers also market economic institutions, the rule of law and weakens competition thus switching off the main drivers of classic capitalist systems.

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