Seeking the Best Master

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INTRODUCTION
The Revival of the State

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Throughout the history of mankind, the state has always been an important actor in social life. The arenas and tools of state intervention have changed substantially over time in connection to social perceptions and political institutions. The role of the state, including its involvement in the economy, has always been a political issue. The state is an embedded social institution. Therefore, state performance can be analyzed not only from the technical but also from the political perspective. It is an important dimension of a state’s effectiveness, but also whose interests are mostly served and how state actions affect other social institutions. In the age of modern capitalism, three periods of intensive state activity may be observed. As Nölke (2014) rightly indicates, after late-nineteenth-century economic nationalism and the Keynesian (and corporatist) decades of the twentieth century, the new period of statism in the first decades of the twenty-first century has already become the third state-led paradigm of the capitalist world. Obviously, the three periods had very different features even from the technical standpoint (the usage of economic policy tools). Therefore, it is not self-evident that these periods have so much in common that direct comparisons between them are possible, especially without proper analysis of both state policies and the global economic environment and political conditions in which they developed. Obviously, the state’s policy toolkit depended on both internal and external political conditions as well as on prevailing political concepts and social perceptions.

Based mainly on the experience of late twentieth-century transition economies, Kornai (2016) differentiated between two main types of economic and political systems. Liberal democracy goes together with the free market economy principle. Dictatorship is bound together with bureau-
cratic 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 economies, 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 a high level of centralization in decision making that provides the state with stronger control over the economy. Historically we can also observe an oscillation between basic state concepts in some countries: autocracy (dictatorship) and liberal democracy (Kornai 2016).

Countries are diverse in terms of their historical and cultural heritage, natural and human endowments, and level of development. Therefore, Kornai’s dichotomy can be applied only with fairly high levels of abstraction. The “Varieties of Capitalism” (VoC) literature (see Hall and Soskice 2001; Amable 2003, and many others) identifies significant differences among capitalist models within the relatively homogenous group of countries of core Europe. This is despite the fact that the countries of core Europe are regarded as liberal democracies and free market economies. Moreover, their political orientation and institutional systems are streamlined according to the foundational documents of the European Union. Basic principles of economic integration describe the potential benefits of increased homogeneity in the single European market. The globalization process has also triggered important spontaneous as well as institutionally initiated economic streamlining in many areas from consumerism enforced by multinational corporations to financial market liberalization proposed by international organizations. Yet Gerschenkornian diversity has prevailed. Relatively little attention has been paid until now to an important object of study within the theme of capitalist diversity: the economic role of the state.

Over time, the development of economics as discipline has produced important insights that permit a better understanding of economic systems. Theoreticians and policy makers generally accepted these new insights, thus creating economic policy paradigms. Two important paradigms of the twentieth century, the Keynesian and the monetarist, delivered conceptually contradictory perceptions of the role of the state in the economy. In the background, we can see the long-lasting effects of liberal economic thought (Keynes wished to reform the liberal approach to the economy). Later, the neo-liberal agenda developed into a pervasive principle that claimed
exclusive influence in economics, economic policy, and education (see, e.g., Csaba 2009 and Stiglitz 2010).

The neo-liberal approach to the role of the state is fairly conservative and emphasizes the principle of minimal state. Due to strong pressure from the monetarist school starting in 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 markets. In Britain, massive privatization of state-owned companies also took place, and direct state intervention was curtailed. Similar policies were applied in many developed economies to a lesser extent. Moreover, international organizations (strongly influenced by the United States and its economic policy paradigm) suggested similar policies to countries with different levels of development and distinctive cultural and institutional heritages. “Minimal state” became the buzzword of the last two decades of the twentieth century. Liberalization, deregulation, and privatization was reinforced in many developing countries and emerging market economies, including the transition economies of Central and Eastern Europe (CEE).

This agenda produced a rather smooth development pattern in developed market economies. The period of “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 recurrent currency crises in Latin America and Southeast Asia were neglected due to the belief that, in the long run, the reasons for these problems could disappear if market institutions were properly developed. The concept was only slightly amended to consider local circumstances in the implementation of proposed policies. The fundamental goal of introducing the liberal market economy in every country remained unchanged.

The neo-liberal agenda also moved full steam ahead during the transition process in Central and Eastern Europe (CEE). The stabilization and modernization of Central European transition economies was based on these concepts. However, the pervasive economic decline of Russia during the Yeltsin era could not be considered a true success story. Yet, the chaos in the Russian economy did not shake mainstream economists’ belief in the omnipotent minimal state concept (see Fukuyama 1992). It was shaken only by the 2007 financial crisis, which showed the limits of liberal market economic institutions’ regulatory effect on the global economy.
Economic concepts were reconsidered in many countries after the 2008–09 global economic crisis. The devastating effects of the unexpected financial crisis could be mitigated only by massive state intervention. The meltdown of the global financial system was prevented through bailouts of the largest global financial institutions in the United States and Europe. Various techniques were applied, but the outcome was generally a massive increase of state ownership in the financial sector (see Voszka in Chapter 1). In some cases, “too big to fail” corporations received the same treatment. The myth of omnipotent self-regulating markets was destroyed. The state had to come back in for even the most developed advocates of the neo-liberal concept.

The starting point of this book is the state’s rapidly increasing economic intervention. The revival of the state has been a general phenomenon in the world economy. However, this change has affected various regions and countries differently. The depth and direction of changes in policy concepts regarding direct state intervention has very much depended on historic and cultural heritage. While broad state intervention in the economy has had a long tradition in France (see Somai in Chapter 2), British and German traditions suggest a more rapid and potentially fuller retreat from state intervention (to take just two examples from the developed world). Emerging market economies in the Third World and also in CEE possessed much weaker market institutions and had already become rather skeptical about the application of the minimal state concept in their countries prior to the 2008–09 crisis. Most countries in these regions did not hesitate to take the now much easier opportunity to increase state economic intervention in the long term.

Diffusing empirical evidence of economic policies shows increasing diversity parallel with weakening neo-liberal principles. For example, the European Union continues to reinforce the paragraphs of the Maastricht Treaty in its neighborhood policy (e.g., in the Western Balkans), but meanwhile, a significant group of EU member states (with Hungary and Poland taking the lead) openly question the validity of the political and institutional fundamentals of the same agreement and try to prevent the application of the Treaty. State permeated economies (Nölke 2014, 2015) have emerged and played roles in the global division of labor that mainstream economic thought reserved only for highly developed economies (e.g., foreign direct investment). For decades, economic development in Africa could not be triggered successfully by policies recommended by mainstream international financial institutions but rather only by new policy approaches from the past decade that better understood and considered local realities (see Diao et al. 2017).
The interpretation of post-crisis development patterns is not at all straightforward. This is the reason for increased research interest in comparative economics. For example, the evolving concept of state capitalism (Nölke 2014 and Kurlantzick 2016) regards increased state intervention as the main driver of the current changes in the world economy. Recent 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.

The predecessors of this complex political economy approach (e.g., Nordhaus’s political budget cycle) dealt with many issues that became fashionable research topics after the 2008–09 crisis. Yet, the early results were usually interpreted as variations of the basic model in comparison with the mainstream approaches. This has changed recently. Earlier research on the development of China, for example, repeatedly treated the Chinese model as a specific type of market economy. But it can be also regarded as a rather specific model, which is very far from any version of a Western market economic model described in the VoC literature. The Chinese themselves treat their economic and social development pattern as a unique model (e.g., Guangdong Xu 2015) that can serve as yardstick for other countries in the Third World. What remains clear, however, is the possibility of the parallel existence and development of several capitalist models that have their own internal logic, are not necessarily interchangeable, and should not be exported in a “one size fits all” manner. In this regard, the conceptualization in VoC literature that describes variations within the Western world’s free market economic models requires further development.

Special interest has been devoted to increased state intervention in the economy, especially the increasing role of state-owned companies. Earlier, the VoC literature (based on the analytical framework laid down by Hall and Soskice 2001 and Amable 2003) did not tackle this issue. Analysis of the state’s role was restricted mainly to market regulations, the size of the central budget, and the degree of income redistribution (see, e.g., Sapir 2006). Research on increased state intervention is in an early stage. Scholars concentrate on various aspects. Nölke (2014 and 2015) put the main emphasis on the development of globally successful national champion companies in large emerging market economies. In so doing, he concentrated on the technical dimensions of state intervention only in four large emerging market economies: Brazil, India, China, and South Africa (BICS). Kurlantzick (2016) compared countries with high shares of state-owned enterprises (SOEs) in GDP production (a rather heterogeneous
group of countries that include, among others, Norway, Singapore, and Thailand).

State ownership is just one aspect of increasing 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. It also possesses strong linkages to political institutions. Therefore, the comprehensive political economy approach to the role of the state in the economy is applicable. An important aim of this book is to interpret increased state activity in various capitalist models within and beyond the countries usually covered in the VoC scholarship.

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 2008–09 crisis. In addition to the high share of SOEs in GDP production, Kurlantzick (2016) listed the general decline of free market policies (as listed by the Fraser Institute). Economic regulation in general became selective, discriminatory, and nationalist (about the advance of economic patriotism see also Gerőcs and Szanyi 2019). Selective policies thwart competition in selected markets, mainly in finance and banking, public utility services, energy, and the gas and oil industry and supply. These are branches of strategic importance from the political perspective: through manipulated prices, governments can successfully influence consumption. Imprints of state paternalism from the pre-Washington Consensus period are still strongly felt in many emerging market economies. Therefore, cheap public utility prices are important dimensions of political competition.

This of course also means a deliberate detour from the classic liberal democratic principles of political competition. Nordhaus (1975) developed the theory of the political budget cycles (PBC), a predecessor to the theory of economy-polity interactions of emerging market economies. The theory argued that average voters were short-sighted and learned slowly about negative long term impacts of excessive state spending in periods of election campaigns, after several elections. Thus, they provided opportunities for the manipulation of elections through excessive public spending. Though some empirical evidence (for a summary, see Halász 2014) suggested that over several election periods the effect might flatten because of social learning, the 2008–09 crisis seemed to reverse this tendency. Moreover, recent election campaigns showed an escalation of populism in highly developed countries of the world. Therefore, there is a worldwide departure from the classic liberal principle of economic and polity separation.
Because of these empirical facts, the analysis of state capitalism should not necessarily be limited to emerging market economies, which has been the case until now. Therefore, case studies of highly developed countries are also included in this volume.

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 contribute to them. The economic development agenda is, of course, not new. Historic evidence (e.g., Somai in chapter 2 or Szanyi in chapter 8 of this volume) puts this motive into the broad context of core-periphery and developmental state literature (see Ricz in chapter 9). This ambition gained new impetus after the crisis. One important new feature 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 (some successful cases are covered in the third section of this volume). An open question in this context is country size. Large countries can allocate significantly more resources to typically 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 create miracles. On the other hand, there are also successful cases with small countries like Singapore (see Völgyi in chapter 10).

The long-term stability of national champions is connected to their successful integration in world trade. The well-known success stories of the East Asian developmental state model are based on international trade success and export-led growth patterns, among other things (see Ricz in chapter 9). The concept of economic patriotism is based on the temporary protection of all national firms in a given branch against global competition (Clift and Woll 2012). The idea is to enhance the accumulation of capital, expertise, and technological knowledge in national companies so they may become competitive internationally. Competition in the national market plays important role during the protected period, and after opening to world markets, also internationally; this is the infant industry development concept. More recent examples, like Chinese practices, are rather mixed concerning the role of competition in development policies.

National champion development programs, and excessive state ownership can fall easy prey of rent seeking too. 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 there is a significant range of corruption levels displayed by state capitalist regimes, from Singapore, on the one hand, with very little state corruption, to many post-Soviet countries with high corruption levels 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 from various countries of big government projects that cost several times more in public expenditure than similar projects in countries with better public and institutional controls on corruption. This practice highlights the danger that “elite enrichment becomes the primary purpose of state enterprises” (39). Besides SOEs, partisan firms’ massive involvement in public procurement also raises worries about increasing corruption and the deteriorating efficiency in the usage of public money (see Szanyi in chapter 8).

The second part of this volume deals with these issues using case studies from three transition economies in Central Europe.

Usually, the slow social learning described in PBC theory substantially deteriorated after the 2008–09 crisis. The Washington Consensus promised welfare returns attached to increasing political and economic freedoms that would favor the middle class. But voters’ dissatisfaction with political freedom increased due to increasing inequalities. After the 2008–09 crisis, benefits realized by the middle class were also reduced. Increased state intervention therefore challenged the model of democracy and free market economics with 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 older paternalistic traditions. Changes in the perception of neo-liberal concepts were also reinforced by political elites who lacked a personal commitment to democracy and a free market economy. Kurlantzick (2016) listed many examples of elected political leaders-turned-autocrats who effectively rolled back democratic institutions with voters’ support in order to strengthen their political positions. The robustly expanding state sector played a 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 was mentioned earlier, there have been many attempts to roll back democratic institutions in emerging market economies, and thus the danger of moral hazard is growing. There have been corruption scandals in many countries from China to Hungary to Brazil. Some of these cases
reached the highest political circles, such as the imprisonment of former Brazilian president Lula. But besides corruption and outright theft, there is also widespread political rent seeking, like overspending on social welfare for political support (PBC) or on prestigious national programs like the World Cup or Olympic games (Brazil, Russia, South Korea). State-owned firms played an outstanding role in rent seeking and overspending.

This book concentrates on issues of public (mainly state) ownership as it relates to the economy-polity relationship. SOEs are the primary tools of market and price manipulation for political purposes. They can also be used for outright rent seeking. They play important roles in prestigious national development programs like major construction works and the organization of social or sporting events. Many of the national champions are also state owned. After the 2008–09 crisis, a general increase in public ownership was observed worldwide. Hence, the main support tool of state capitalist systems was present in countries with very different development levels and institutional systems. The main aim of the book is to highlight the differences in treating and using increased state property in various capitalist models. The national case studies will provide examples of successful state capitalist models (Singapore) and less impressive results (Brazil). They will also highlight the struggle between democratic institutions and interested political parties (Central European countries). In case of highly developed countries (the first part of the volume), state ownership did not significantly change the institutional framework of the liberal market economy model.

The approach of the book is fresh in a variety of ways. First, all of the case studies include substantial explanations of the cultural and institutional heritage of their chosen countries. This feature adds a new aspect to the existing VoC literature. We also would like to emphasize that the economic systems of countries in regions with heritages that differ from the classic Euro-Atlantic development paradigm cannot be regarded as variations of the mainstream capitalist model. The usual classifications that stem from the seminal works of Hall and Soskice (2001) or Amable (2003) cannot properly describe economic systems of other regions. Nölke (2014 and 2015) took an important first step in defining one of the alternative capitalist systems in large emerging market economies (state-permeated capitalism in BICS). However, this concept describes the usage of sophisticated new toolkits to enhance the economic convergence of economies in the periphery on the practice of only a few large emerging markets. But increased state intervention has been observed more generally and with potentially very different intentions and effects.
In my view, active state development policies pursued by BICS are best described by Clift and Woll’s concept of economic patriotism (Clift and Woll 2012). In the age of globalization and the liberalized world, covert protection is provided. The concepts are old, and the toolkit is amended. However, BICS as well as many other countries increased state economic intervention for various political reasons. I believe that the types of policies that were placed in the foreground depended heavily on decision makers’ political purposes ranging from economic development to the monopolization of political power. In these rather diverse aims and policies, the common denominator was state ownership. SOEs are crucial tools for achieving the most diverse political goals.

In the discussion of this topic, we will concentrate on the political relevance and effects of increased state ownership. The first section contains three case studies (France, Germany, Austria) from core Europe that highlight how stable democracies handled the problem of increased state ownership. The second section includes essays on three Central-European transition economies. The main theme in this section is the role of privatization in strengthening market institutions and the interplay between economy and polity, which was sharply altered after the 2008–09 crisis by increasing nationalization. The third section is about Third World countries and compares the classic success stories of catching-up (the East Asian developmental state model as illustrated by Singapore) with more recent and less successful attempts (Brazil and Turkey). Throughout the book, the role of state ownership is discussed mainly in relation to various political goals. Although we do not intend to provide a thorough definition or description of the state capitalist model, all of the essays contribute to a better understanding of some of the most common features in the field of economy-polity interplay.

The main hypothesis of the book is that the weakening of the neoclassical paradigm after the 2008–2009 crisis and the resulting increase in state intervention affected countries with different economic and democratic development levels differently. The social control and 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 begun. Emerging state capitalist systems used increased state ownership for their own political legitimation and rent seeking. SOEs can be developed into globally competitive national champions, and they can participate in politically-motivated, large develop-
The Revival of the State

They can also serve political rent seeking (in new forms of state paternalism) and 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 encourage policies targeting more social goals that serve political self-interests (e.g., reelection) indirectly through rising popularity. This effect is not much different than the excessive budgetary spending of PBC. However, the deliberate rolling back of social institutions and increasing populism works in the opposite direction, giving way to more direct forms of rent seeking. This book has collected case studies that test these processes and assumptions.

REFERENCES


