When the research program for this book was designed in 2014, clear changes in the size and depth of state economic involvement was already evident. At that time, the political impacts of these changes were less clear. The hypothesis of the research expected different economic and political impacts of increasing state intervention depending on the quality and embeddedness of democratic political and liberal economic institutions. The hypothesis expected that countries with less embedded or fewer institutions would be less able to withstand the political opportunities (temp- tations) of greater state influence. This hypothesis was largely proved by the research. However, since then, important changes have occurred in the global economy and politics. Later development in world economy and politics showed that the apogee of the neo-liberal concept reached a geographi- cally wider area and produced further, rather serious changes in the status quo of the Great Moderation. Brexit, the American trade war, and the elec- toral success of various populist parties in Europe showed that countries with deeply embedded institutional systems of the competitive state were also seriously challenged in the post-crisis period. It is, therefore, highly relevant to also include developed countries in the scope of research on business-polity interactions and the role of state ownership in them.

The overall picture of the uses of increased state ownership supports the initial hypothesis. Traditional market economies tended to maintain their specific social institutional systems, the differences of which also affected state ownership patterns. In the French economy, the state has played important role in the stimulation of the economy, especially high- tech sectors, since the seventeenth century. Nationwide infrastructure sys- tems together with their support industries have been also largely under
state influence. It is important to mention here that direct state ownership
is frequently complemented by indirect forms of control (partial ownership
with special voting rights for example). Overall control may be much larger
than what the analysis of state ownership may indicate (see Somai on
France in Chapter Two, Körösi on Austria in Chapter Four, and Kozar-
zewski and Baltowski 2016 on the example of Poland). In Chapter One,
Voszka also showed that state ownership, together with special features of
market regulation, should be observed in order to grasp the full impact of
state control over various industries or the economy as a whole.

Germany returned to its previous reduced ownership pattern rather
quickly after the necessary nationalizations that took place after 2008.
The orientation and stimulation of the economy used the traditional
strong institution of the tri-party system’s social consensus. The German
economy recovered very quickly using the increased sales of exports in
the manufacturing industry, which was supported by flexible labor market
solutions rather than increased direct state intervention.

The Austrian case is more peculiar. Austro-Keynesianism prevailed
well beyond its heyday in the second half of the twentieth century and
produced a successful growth pattern for the country. It has always been
bound to high level of direct state intervention partially based on state
ownership. The socio-liberal governments continued this tradition after
2008. Ownership control was even strengthened and centralized in 2015
with the establishment of ÖBIB (Chapter Four). But after 2017, a new,
right-wing, and to some extent populist government announced signifi-
cant changes in traditional Austrian economic policy trends. The new
policy package puts significant emphasis on the monetary stimulation of
the economy, supports for innovation, and family businesses. These goals
are, of course, not new, but their primacy in economic policy reflects
neoliberal ideas combined with the potential scaling back of direct state
intervention.

The three case studies focusing on developed market economies
revealed major differences in traditional institutional systems and eco-
nomic policy patterns that were not streamlined in a uniform direction
Concerning the ownership policies of developed countries, Voszka con-
cluded in Chapter One that (mostly reluctant and covert) nationalizations
and privatization continued to occur simultaneously. This means that
states as owners changed their corporate portfolios according to specific
governmental (and perhaps social) goals. An important goal may also be
making profits, and this aspect is not restricted to sovereign wealth funds
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(which, at their origin, have tended to be regarded mainly as business entities), but also manufacturing companies and service providers. Many of the large German, Italian, and French companies are not distinguishable from their private competitors in terms of their behavior (see the French case in Chapter Two but also similar policies in Poland, Chapter Six, and Brazil, Chapter Twelve). The state as owner trades with their securities and participates in their control as ordinary stakeholders. Many times state has only partial ownership in publicly traded joint-stock companies as a form of hybrid ownership.

Throughout the book, special attention has been paid to the role of state ownership in the shaping relationships between businesses and politics. These links, of course, also exist in developed countries. In the case of modern Western economies, moderate forms of corruption like favoring political allies and red-carpet treatment for state representatives in the management and on corporate boards may be observed (see the Austrian Proporz-system). State companies, however, were more likely to serve political goals, which were usually labeled as social goals, like maintaining employment levels (Boycko, Shleifer and Vishny, 1996). In all these cases, the costs of politically determined corporate goals may be traced back. Effective social and political control over government agents and state property, as well as the control of capital markets set limits on political and individual rent-seeking. Voszka also indicated that instead of nationalizations, governments sought to increase control through regulatory measures and limitations on property rights through the “expropriation of incomes.”

Yet major political changes occurred in many Western countries after the crisis. Of course, the climax of the European migration problem contributed largely to the demise of traditional program parties and the advance of new “business firm” parties (populist parties). The two largest economies of the EU (France and Germany) hardly escaped the victory or at least significant political impact of populist parties in the 2017 elections. In Italy and Austria, they won elections. It is not very easy to foresee what policies these parties will pursue, since they are not traditional, ideologically driven political movements, but rather “parties of the people,” that promise to say and do whatever voters would like to hear and see. Nevertheless, the Austrian Kurz government’s program has some solid theoretical and practical grounding, but this cannot be said about the new Italian government. The picture is a blur.

The transition economies of ECE had much weaker or basically no tradition of political democracy and a liberal economy. All the necessary political, economic, and social institutions were imported, and these insti-
Institutions had just started to become embedded when the 2008–9 crisis hit. The populations and also policymakers lacked a firm commitment to the values of the Western world that were reinforced in these countries also institutionally by the laws of the European Union after 2004. The weak underpinnings of the competition state concept were discovered by several empirical surveys (for example, on the social rejection of privatization, see Denisova et al. 2010). This also meant that the risks of deferring the institutional system in ways that enhance personal and political rent-seeking were much larger in this region than in more established market economies. Rolling back democratic political institutions and the safeguards of free competition in the economy already began in Hungary before the crisis. An important area of retreat was increasing state property.

Our analysis in Chapter Five proved that increased state ownership in the countries of ECE served markedly different purposes than in most of the more developed market economies. The demise of the neo-liberal concept weakened the factors that reinforced the merger of the region into the competitive state system. International institutions became aware that the suggested institutional solutions might become counterproductive in unfamiliar (to them) social environments and were discouraged. Pressure from the EU also softened after the successful accessions. Bourgeois economic patriotism spread across the ECE region. Under the umbrella of economic patriotism, a new system of patronage was established. Favoritism was not used generally towards inhabitants or firms of “patriae,” but was selectively addressed to political clients. In this realm, state property played an important role. Besides the previously described “traditional” rent-seeking opportunities, SOEs could be effectively used for corruption. Against this background, the expanding state sector can be interpreted as the reversal of the political and institutional goal of privatization. This is no less than an attempt at widening the channels of rent-seeking and corruption, and it could be implemented because of the lack of solid political and social control and social disappointment.

Less private and more public property in itself should not cause problems. After all, the size of the state sector in many established market economies is still larger than in Poland or Hungary. The problem is caused when it is used or plays an increased role in political rent-seeking and corruption. Another related problem is the method of expanding state property as opposed to privatization. In many cases, property expropriation occurred, if not through outright theft or robbery (see the Russian practice of corporate raiding in Viktorov 2013), then through regulatory capture. In any case, many of the nationalizations were bound to the violation of pri-
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Private property rights. As such, basic institutions of the free market economy and the principle of competition state have been weakened. This tendency paralleled the outright rolling back of democratic political institutions in Hungary and Poland. Similar attempts in other ECE countries were less successful.

After giving a general overview of transition-related privatization process, ECE country case studies concentrated on issues that were typical and distinct to the given country. The highlight of the Polish case study was the successful combination of privatization and the development of capital markets (especially the Warsaw Stock Exchange). This topic naturally leads to corporate governance issues, since, in many cases, state control is exercised with partial state ownership. The exposure to competition on the capital market helped increase efficiency and transparency that in turn put limits on political objectives. Despite this positive feature, the interdependence of politics and the economy has remained strong in Poland. Much of the space for rent-seeking and corruption has remained in place. Most current events were the result of the deceleration of the privatization of remaining state property after 2011 and the new 2015 program of increasing Polish (state) ownership in the economy, called “re-Polonization.” These steps were also taken in the name of economic patriotism. However, there is growing evidence that the transactions mainly served political rent-seeking purposes.

The Slovenian case in Chapter Seven clearly demonstrated the political stakes of privatization versus nationalization. The Slovenian transition process had long enjoyed a very good image because of the relatively strong macroeconomic performance and seemingly deep and quick advances in institution building and privatization. As we saw however, privatization was, in many cases, only surface privatization, and state ownership was retained, albeit in indirect forms largely through state-owned financial intermediaries. Moreover, incumbent management generally remained in place. This meant that the political goal of using privatization to replace the old nomenclature went unfulfilled (see Frydman and Rapaczinsky 1994), and important tasks of the neo-liberal agenda were not realized. This failure came back to haunt the state in the 2000s, when the new elite wanted to accomplish political transition and wanted to remove incumbent management from directly or indirectly state-controlled companies. Macroeconomic imbalances increased when the financial results of the mis-management of quasi-privatized firms were realized.

Chapter Five clearly describes the various goals of privatization in the transition process in ECE. Poland stood out with a relatively slow, albeit
very transparent privatization process that enjoyed social consensus. Hungarian privatization was quick and deep and built largely on the involvement of foreign direct investments. In both countries, political tasks, such as eliminating communist party officials’ political and economic power, were failures. Yet, various political and business elites were confronted over the distribution of economic positions. These confrontations were also politically interwoven: the comprador elite serving foreign firms’ interests was to be pushed back in business (together with “their” foreign firms). This has been one of the main arguments of populist Polish and Hungarian governments since the mid-2010’s. In Slovenia, multinational businesses did not participate in the privatization process, hence it was not the comprador but the incumbent elite that had to be removed. The clash of various political and business elites may create macroeconomic problems, but, even worse, it also damages market institutions.

The Hungarian chapter described the process by which the Hungarian government rolled back important institutions in order to eliminate control over rent-seeking and corrupt transactions. The study also highlighted changes in the source(s) of rents. After joining the EU, the primary source of rents became EU financial transfers from structural funds and the agricultural fund. State-owned enterprises played an important role in political rent-seeking: in the reduction of utility prices and by providing financial support for various politically motivated programs. Corruption (that can be also legal) mainly targeted public procurement tenders that used EU funds. At the same time, the economic patriotism mantra was used to legitimize massive attacks against foreign business mainly in the service sector and trade. Foreign firms’ market positions were to be captured either by state-owned companies (in public services in order to slash prices to buy election votes) or by partisan firms (e.g. in retail, trade, and banking). At the same time, the Hungarian government continued to support foreign manufacturing investments. Foreign investment attraction in certain segments of the economy remained very strong. The structure of the economy and especially exports became highly concentrated in the automotive industry and electronics, which increased vulnerability as was evidenced during the 2008–9 crisis.

Studies on the ECE region are also important from the perspective of developed countries. Negative anomalies of business and polity interactions in the old EU member states were not clear yet. An important reason for this are the relatively solid political (regular, free elections) and social controls (watchdog institutions). But major changes occurred in core Europe’s party system as well! Business firm parties were established
well before their advance in ECE. Silvio Berlusconi’s political career or Jörg Haider’s election victory preceded Viktor Orbán’s second or Jarosław Kaczyński’s first governments in Hungary and Poland respectively. Further damage to the traditional parties in core Europe may easily lead to similar dangers that we are witnessing now in ECE.

Emerging market economies are especially important fields of observation regarding the impact and applicability of classic democratic political institutions and liberal market economic principles in different cultural, historical, and political backgrounds. In fact, some countries on the peripheries of Europe and the US (Turkey, Mexico, and Russia) have repeatedly attempted Western-style modernization during their history. Chapter Eleven provides a brief overview of the latest Turkish attempts. The modern history of that country can be interpreted as the competition between social and political groups favoring Western modernization and those that call for a more traditional developmental course with strong Islamic features. The very long story of Turkey’s association with the EU and the clumsy negotiations over membership reflects the fundamental difficulties of fitting the country into an alliance of such culturally diverse countries. The current popularity of President Erdoğan, and his successful policy of rolling back barely established democratic institutions, shows the declining impact of Western competition on the state’s principles. Turkey’s departure from European values worries the European Union but obviously not the majority of Turkish society. It is not yet clear if the presidential system and new economic policies will bring prosperity or decline.

There are also other countries with non-traditional economic models that proved to be successful, at least in some periods. Singapore’s model has been regarded as a true success story (Chapter Ten). Nevertheless, the family of a charismatic leader has dominated the economy, state, and social life. Economic success was not bound to political competition. State-owned firms virtually meant the personal property of the ruler. Very specific circumstances, among others the strategic location of the tiny country and the British military presence, which provided exceptional opportunities that were cleverly utilized. Hence, the Singapore success story is rather unique, despite the fact that it is regularly mentioned as part the East-Asian developmental state model, together with other, equally distinctive Asian success stories (Taiwan, South Korea).

Chapter Nine deals with the issue of the revival of the developmental state concept. New statist approaches are applied to support the catching-up process of emerging market economies. These new attempts, however, must be different, not only because of the variety of countries’ socio-eco-
nomic models, but also because the operating environment has changed. Globalization redesigned the international division of labor with an outstanding role for large multinational companies that operate in global value chains of international corporate networks. This makes the development of new global players based in emerging market economies extremely difficult. Global free trade and many multilateral agreements limit the possibilities for traditional infant industry protection. Clift and Woll (2012) described the process of reinventing control tools over open markets as new forms of protectionism.

Other important differences stem from the altered structure of production and employment. Today, developmental success must be based on strengthening national participation in current dynamic sectors, most importantly in services, rather than the industrialization process of mid-twentieth-century national success stories. This focus also means different social impacts. In Chapter Nine, Ricz argues that today’s typical employment structure focuses on highly paid knowledge intensive services and badly rewarded interpersonal services. The social impact of this specialization pattern is growing polarization. This stands in contrast to the industrialization process fifty years ago, which was based on massive labor reallocation from poorly paid agriculture to better paid industrial jobs with little wage inequality. Today’s development pattern produces growing inequality, which may seriously undermine the political sustainability of such growth patterns. The case studies in the volume could not find convincing policies that improved the inclusiveness of economic development.

Although new developmental state concepts emphasize the role of enabling policies, there are many examples of a strong state sector presence tasked with the facilitation of national development goals. Singapore as an archetype is clearly such an example, although, most recently, when the development goals have been achieved, few SOEs were privatized. The other interesting case is Brazil (Chapter Twelve). Prevailing traditions of a less successful developmental state experiment contributed to recent political and economic crisis and social dissatisfaction, especially after 2014. The 2008–2009 crisis strengthened the reassertion of the activist state that has maintained its roots in the old type developmental state model after a period of less intensive state involvement (in the management of SOEs), which has also been earmarked by privatization transactions. This attempt proved to be unsustainable both in economic and fiscal terms, and politically and socially. The Brazilian government’s temptation was too high to directly intervene in the management of SOEs. These interventions were sometimes unsuccessful and hurt private minority
shareholders’ interests. Weak and politicized regulation and strong state influence undermined the effects of checks and balances in Brazilian SOEs. Discretionary government decisions posed serious threats to the performance of SOEs, destroyed investors’ confidence, and weakened the business climate. This was also reflected in the privatization process through public listings, as investment opportunities in majority state-owned companies did not attract sufficient private capital.

The chapters in this volume analyzed direct economic interventions by the state mainly through state-owned firms. The primary aim was to distinguish different patterns of involvement in countries with different cultural and political backgrounds and development levels. The hypothesis that more stable institutions will resist the temptation of using increased state ownership after the 2008–2009 crisis has been proven. However, more detailed analysis revealed the fact that institutions’ long traditions of and relationships with the institutions of the competition state will not provide full immunity from the temptations for more developed countries. The rolling back of democratic institutions has started in many emerging market economies as well as in some of the new EU member countries, with the potential threat of undermining the whole European institutional system. Potentially, these practices can be exported to core Europe as well.

The state sector has played important roles in supporting various political goals in most of the countries analyzed here. Some of these goals were not economically rational. Although we discovered practices in harmony with the concept of the entrepreneurial state (Mazzucato 2013), more often, state intervention increased and often lacked business considerations. Actions of political rent-seeking discouraged private investment in publicly traded companies. Forced nationalizations and encroachments undermined the rule of law and the institutions of the competition state.

Based on the results of the analysis of direct state actions in the economy, we can continue our research on other areas of business polity interactions. The two areas should be simultaneously analyzed in an appropriate theoretical framework. Kornai (2000, 2016) has carried out simultaneous research on economic and political processes that have theoretical relevance. His concept of the system paradigm can be used as an analytical tool in comparative studies. Most countries in the contemporary global economy can be treated as hybrids standing between the two major economic and political systems: capitalism and socialism (communism). Moreover, the demise of the neoliberal concept produced a major shift from the liberal-democratic pole of Kornai’s dichotomy to the authoritarian-illiberal pole. This is reflected in the latest political events in var-
ious countries (Putin’s Russia, Erdoğan’s Turkey, Orbán’s Hungary). Traditional Western democracies’ institutional systems were largely maintained until now, but there are question marks in several countries (e.g., in Italy). We can therefore check whether it holds in any developed country if increased state economic involvement is not about the efficient allocation of economic resources, but about maximizing political control over society and the economy (Acemoglu and Robinson 2012).

Kornai explored the two main economic systems above as two ideal types of existing socio-political formations. Allowing for a wide range of actual implementation, Kornai (2000, 2016) described the fundamental characteristics of the two regimes as a dichotomy. Primary (decisive) system-specific characteristics were identified as determining the two systems as a whole. They are differentiated from secondary (reactive) features that modify the actual appearance. The three primary aspects that differentiate socialist and capitalist systems are the following: 1) the relation of the political sphere to property forms and economic coordination mechanisms, 2) the dominant form of property, 3) the dominant economic coordination mechanism. These main characteristics influence six secondary characteristics: 1) power relations between the two sides of the market for goods and services, 2) power relations between the two sides of the labor market, 3) the speed and qualitative features of technical progress (innovation), 4) the resulting income distribution, 5) the softness/hardness of firms’ budget constraints, 6) the main direction of corruption.

Kornai (2016) distinguished three types of political categories: the two traditional politico-governmental forms; democracy and dictatorship; and a third form: autocracy. However, in Kornai’s words (2016, 566) “autocracy, in this paradigm, is no blurred ‘middle way’ between democracy and dictatorship, but a sharply identifiable type in the sense Max Weber termed an ‘ideal type.’ It is a theoretical construct that in my approach is distinct from two other types: democracy and dictatorship.”

In order to label one or another existing regime according to the three big politico-governmental forms, one has to first look at the following four primary characteristics: 1) the possibility of removing the government through peaceful and civilized procedure; 2) the existence and strength of institutions that jointly guarantee the conditions of removing the government; 3) the existence of legal parliamentary opposition and a multi-party system; 4) the existence of terror and/or other means of coercion applied against political adversaries. In the background of these main attributes, the following six areas have to be analyzed as secondary characteristics: 1) the use of repressive means against the parliamentary opposition; 2) the
strength and independence of institutions functioning as checks and balances on political power; 3) the dominance of the ruling political group’s appointive practices; 4) the strength of civil society and the legal constraints against civil protest; 5) levels and practices of participation (in decision making); and 6) freedom of the press legally and in practice.

These dimensions of economic and political systems can be verified, and therefore, they seem to be suitable for timely international comparisons. Cross-section analysis has to be supported by ample evidence gathered from case studies as well. The task is urgent, because the global economy and global politics change very quickly. Complex research on the economic and political drivers of the processes support and promote a better understanding of these changes.

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