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# The Anatomy of the Newly Emerging Illiberal Model of State Capitalism: A Developmental Dead End?

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## ABSTRACT

The article aims to conceptualize the contemporary illiberal model of state capitalism with the main focus on emerging economies. State capitalism is understood in a broad sense, as a multifaceted institutional construct, in which increased state interventionism is a steady feature, materializing in diverse forms. It is a first attempt to theorize and systematize the recent version of state capitalism along the Kornai's system paradigm framework in a deductive-positivist way. Acknowledging that national varieties of contemporary statist experiments exist, the article aims at a higher abstraction level to define the operational logic and some common core characteristics of contemporary state-capitalist regimes, as a new type, a steady hybrid regime with its own values. Finally, it is argued that even though some illusionary short-term (economic) success stories have emerged, on the longer run illiberal statist measures aiming at consolidating political power at any costs, might undermine widely defined development.

## KEYWORDS



State capitalism; emerging economies; developmentalism; system paradigm; hybrid regimes

## Introduction

A new economic model is emerging during the last years throughout the world (from Russia and Turkey, to Brazil, China, Egypt, Thailand and the Philippines). To some extent this might seem a global phenomenon: since the 2008–9 Global Financial Crisis (GFC) state involvement in the economy has been on the rise worldwide and democracy has also been backsliding globally. Both tendencies have been reinforced by the global spread of the COVID-19 pandemic and its consequences. Throughout the world<sup>1</sup> (though to very different extents – see e.g. the International Monetary Fund's COVID policy tracker<sup>2</sup>) governments have enacted heavy lockdown strategies to slowdown the spread of the virus and introduced stimulus packages to minimize economic and social consequences. The role of the state has increased dramatically ranging from controlling social life to helping out some specific (strategic) sectors and providing social assistance to the most vulnerable groups. Though globally we consider this return of the interventionist state mostly as crisis-driven and anticyclical phenomenon, it is yet too early to draw any conclusions regarding the longer term impacts in general regarding the workings of the capitalist system, and also in particular if focusing on the role of state in the economy.

In more developed countries the recent rise of state interventionism was directly linked to crisis management, and remained mostly a cyclical phenomenon in the aftermath of the GFC, and thus similar tendencies are to be expected following the crisis induced by the recent coronavirus pandemic. In emerging economies, the recent rise of statism dates back to the late 1990s and early 2000s, though in some cases it was strengthened in the post-GFC era, and in almost all cases it has reinforced state interventionism amidst the recent pandemic. Nevertheless, in these less advanced countries the state has traditionally played an active role, and is historically more embedded in institutional and social memories.

The focus in this article is on the countries outside the core of the world economy, mainly emerging economies and to some extent the post-socialist bloc, which are considered as latecomers by development economists. While the increased role of the state in the economy in these countries seems to be a steady feature, the forms of this permanent state activity are diverse, ranging from state ownership and indirect forms of influencing micro-level decisions, through active structural policies, meddling with prices to paternalism and business-politics entanglement, and finally to increased corruption (as a systemic feature).

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In many cases, the extended role of the state has some historic parallels of modernization and catching-up. Therefore, activist state can claim substantial social and political support, and this is often expressed in deliberate confrontations with the neoliberal political and economic agenda of the Great Moderation period. Rising state activism in the economy goes more often than not hand in hand with changes in the political realm. It currently coincides with the retreat of democracy: tendencies towards autocratic governance style, personalist ruling, attacking checks and balances of political power and hurting independent institutions and agencies. In the political realm *illiberalism* (Zakaria, 1997), while in the economic sphere *unorthodox* or *heterodox* economic policies became the new catchwords.

With these historical antecedents, the aim is to conceptualize the new forms of state-led *developmentalism*, with recent tendencies showing towards the spread of illiberalism both in the political and economic realms. Though different varieties of new statist models coexist in different countries, this article argues that there are sufficient commonalities to treat these together, and call it contemporary or *illiberal state capitalism*. This article is a first attempt to theorize and systematize the current version of state capitalism along the Kornai's system paradigm framework in a deductive-positivist way and aims to shed light on the logic of its operation.

The need to consider these recent experiments together is further accentuated by at least two reasons. On the one hand new illiberal tendencies might provide recipes for other countries to emulate – a new role model seems to emerge, with an inherent risk of a continued spread of illiberalism worldwide. At the same time mutual efforts to use other illiberal experiments as point of reference, might raise the (internal and external) legitimacy of these regimes, whereas emulating and further developing illiberal ideas might lead (as a vicious circle) to the “radicalization” of the model.

On the other hand, some common tendencies and consequences seem to show towards similar, non-developmental long-term outcomes (often overshadowed by short-term economic growth rates and illusory success stories). Medium and long-term socio-economic consequences and their grievance might differ from country to country, depending mainly on the robustness of political and economic institutions, resilience of democratic and market economic traditions and in more general terms on country-specific patterns of development levels, values and preferences. Most countries in the emerging world are however struggling to get out of the so-called middle-income trap (MIT), and their current economic policy agendas are more

often than not revealing totally the opposite, than historical examples and economic literature would suggest to be reasonable to avoid such a trap.

The article is in six parts. First, a short conceptual clarification is provided, and followed by a historical overview. The third section presents the theoretical background. Fourth, the anatomy of contemporary state-capitalist regimes is sketched, followed by a preliminary attempt to conceptualize contemporary state capitalism according to the revised system paradigm. The final section concludes.

## Conceptual clarification

Though the term state capitalism has its origins in the Marxist tradition, this article does not follow this approach. The term state capitalism has gone through a renaissance in the post-GFC period, and this contemporary resurgence is a descriptive, positive terminology, a less value-laden typology.

Instead of providing an extensive review of the state capitalism literature (for this Bałtowski et al., 2021; Ricz, 2018), here it is suffice to recall the rather broad, general definition of Bremmer (2009, p. 41), who was among the firsts to describe the recent statist wave. He defines state capitalism as “*a system in which the state functions as the leading economic actor and uses markets primarily for political gains*”. Most other interpretations of state capitalism in the literature have a much narrower scope, and focus on state ownership or emerging markets' multinationals. This article applies the broader understanding (in line with Bremmer): contemporary state capitalism is considered as a new economic model emerging in the era of globalization. Despite differences in its delineation and boundaries, there is consensus that rising state interventionism (in which state officials make – politically motivated – economic decisions over strategic investments, state ownership and regulation) can be observed throughout the emerging world, from Saudi Arabia, Turkey, China, Brazil, Mexico, Russia and India, and despite many country-specific characteristics, these share enough similarities to deserve the label *state(-managed) capitalism* (Bremmer, 2009, p. 41).

In this broad interpretation state capitalism is situated somewhere in the continuum between the two big types of existing socio-political formations, such as capitalism and socialism, potentially as a new emerging hybrid form in between, to depict contemporary changes in the rising role of state in economy. Thus, state capitalism refers to an overarching and growing (direct or indirect) state influence over the economy, which actively influences the long-term

development path of the country, with the ultimate aim however being the consolidation of political power over the long term.

The starting point of analysis is the assumption that the ultimate aim of contemporary state-capitalist regimes is political, and changes in the economic sphere are used as a tool for supporting this ultimate aim. In this vein the rise of state capitalism has to be considered in parallel with the awake of illiberalism in the political realm, the rise of autocracy. The term autocracy is used according to Kornai (2016), as a third type along the two traditional politico-governmental forms, democracy and dictatorship.

One of the main characteristics of hybrid regimes is that formally everything looks like “business as usual”, but in reality and practice significant deviations dominate. As in the case of the differentiation of autocracy from democracy and dictatorship, it can be hypothesized, that new state-capitalist regimes and the way these operate in reality, demonstrate huge deviations from both the capitalist and socialist regimes, and thus constitute to be a new type on its own value.

### Historical antecedents

Without going into detailed historical analysis on the emergence of modern nation states and their interventions, which at latest started with seventeenth and eighteenth century’s mercantilism, here it is sufficient to refer to three waves of modern state capitalism following Nölke’s (2014) periodization.

The *first wave* of statism dates back to the mid- to late nineteenth century’s trade protectionism, when many states aimed at developing their domestic industries by using tariffs and establishing various state infrastructures.

Following the early twentieth century’s liberalist decades it was only after the Great Depression, when the role of state in the economy has been strongly increased (such as in the United States, Europe and the Soviet Union): the *second wave* of statism started. The rise of the East Asian developmental states can be dated later, as it started only after the Second World War (though with important historical antecedents, especially in the case of Japan). Trade protectionism was replaced by incremental liberalization, and a much broader set of instruments emerged to protect domestic industries and steer industrial development towards strategic sectors. State capitalism 2.0, as called by Nölke (2014, p. 3) was characterized by the central role of economic planning and state interventionism has for several decades dominated the industrialization efforts of latecomer economies.

At the latest by the 80s and 90s the winds of global ideological changes have turned towards prioritizing market forces and have led to the rise of neoliberalism (mainly driven by the Reagan and Thatcher governments, and the decline of the East Asian developmental states). Finally, the *third wave* of state capitalism has started around the late 90s and early 2000s in emerging economies (such as China, Brazil and India), and reveals significant differences from the earlier versions. First, this new variant is a much more multifaceted institutional construct based “*on a variety of formal and informal cooperative relationships between various public authorities and individual companies*” (Ten Brink & Nölke, 2013, p. 26), and reveals consequently a different pattern of business and government relations. Second, new state-capitalist regimes are integrated into an intensively globalized world economic system, and thus the strategic and selective use of inward and outward foreign direct investment became an important instrument to foster national economic development. Finally, the complexity of the operational logic of current statist regimes goes beyond the often cited close interlinkages between the state and multinationals in emerging markets.

Correspondingly, our preliminary hypothesis runs as follows: contemporary state capitalism in latecomer economies is a steady and stable model variant, and not a merely transitional phenomenon, but a new type with its own value. This entails, that political and economic institutions interact with each other, and these mutually reinforcing interdependencies provide certain stability for the model over time.

To empirically test this main hypothesis a series of country case studies shall be conducted as part of a larger research program, this *concept paper* however merely aims at providing the analytical framework, by critically engaging with existing literature, explaining the methodological starting point and highlighting some potential cornerstones of analysis.

### Existing theoretical frameworks

Two broad strands of economic literature have analysed the first and second waves of state capitalism: the *comparative capitalism research* and the *developmental state school*. Both schools have their limitations if aiming at systematically exploring contemporary statist tendencies.

With intellectual roots going back to the comparative system theory the comparative capitalism research agenda has been revived by the seminal work of Hall and Soskice (2001). The Varieties of Capitalism (VoC) studies grew out of the observation that the development

patterns and capitalism models of the late-developing economies have diverged significantly from the classic (liberal market economy) model that emerged in England in the eighteenth century. Following this tradition an extensive literature has emerged analysing different capitalism variants, first mainly focusing on more advanced economies (see e.g. Amable, 2003; Baumol et al., 2007). The geographical focus was later extended to post-socialist economies (Bohle & Greskovits, 2012; Farkas, 2016; Nölke & Vliegenthart, 2009; Széleányi & Mihályi, 2020), and also to some other emerging regions (Nölke et al., 2019; Schneider, 2009; Schneider, 2013; Schedelik et al., 2020). For an excellent overview on new directions and cutting edge debates in comparative capitalism research see Ebenau et al. (2015).

While the intellectual forerunners of the VoC research have emphasized state policies and state-society relations lying beyond the different development patterns, Hall and Soskice (2001) and a range of successive studies, took a much more *firm-focused view* and concentrated on different institutional arrangements. The main argument – aiming at explaining why different capitalism models coexist on the long term without any reasonable convergence – was the following: *institutional complementarities* in different segments of the economy, the state and the society (structured by Amable (2003) into the five areas of industrial relation, education and training, corporate finance, interfirm relations and corporate governance) reinforce each other. Thus, related institutions create increasing returns in the presence of others, and create stable institutional types with long-standing differences between the different types leading to path dependency over the long term. In the next section, we will show, that in contrast to these views, the developmental state school explaining the outstanding development performance of East-Asian economies, has highlighted the success stories of (state-led) path creation.

The VoC approach has its limitations at least in three ways, if aiming to systematically explore contemporary state capitalism. First, in the classic VoC literature countries of the Global South have been mostly neglected (except for some more recent works, such as Nölke et al., 2019; Schneider, 2013).

Second, most VoC analysis has not focused on institutional changes and their dynamics over time. In contrast if analysing the rise of contemporary state capitalism the need to reveal ongoing tendencies, directions of changes and in more general terms the evolution of (both formal and informal) institutional arrangements is crucial.

The third limitation is the fundamental neglect of the role of state vis-à-vis the firms and other actors of the

economy. It would be highly relevant to go back to the roots of comparative capitalism research, and revive the focus on state policies and state – society relations.

The argumentation on bringing back the state is a clear link to the other strand of literature, namely the *developmental state (DS) school*. Dating back to the 1980s and 1990s, the *DS school* has analysed the special East Asian way of catching up. Johnson (1982) has described the Japanese model as a capitalist plan-rational developmental state. The logic – in a nutshell – was that the state (via the elite bureaucracy and the Ministry of International Trade and Industry) has relied on administrative guidance (such as selective industrial policies, subsidized credit, fiscal incentives and trade policies to promote exports, etc.) rather than on rigid regulatory schemes or direct state ownership (Onis, 1991). The Japanese DS has actively (and selectively) promoted external competitiveness and economic growth through a wide variety of market conforming tools, but at the same time it aimed at maintaining market competition to as high degree as it was compatible with its priorities.

During the following decades, the DS concept was applied and expanded by the so called revisionist school: first to South Korea, Taiwan and Singapore, and then to other Southeast Asian countries, including Malaysia, Thailand. With significant differences existing in the economic structures and strategies of these countries (Pempel, 1999), all have applied similar market-conforming tools of state interventions in the economy. Key features of classic developmental states were the high levels of disciplinary power exerted by the meritocratic bureaucracy (Amsden, 1989), the state-led guidance of market processes in order to direct investment into selected strategic sectors (Wade, 1990) and embedded autonomy with regard to state – society relations (Evans, 1995).

At the same time the classic model of DS was embedded in *situational imperatives* and *nationalism* (Johnson, 1982, p. 307). A historical interplay of political, economic, ideational, social, regional and security forces has contributed to the East Asian economic miracle, part of these were time-related, while others were geographically determined and more region-specific. This set of *systemic vulnerability conditions* (Doner et al., 2005) has made the DS non-transferable and not-repeatable in other times and places, and the change of these contextual factors has led to the demise of the classic DS model even within East Asia, clearly demonstrated at the latest by the Asian Financial Crisis in 1997–99 (Benczes, 2000, 2002; Ricz, 2019; Woo-Cumings, 1999).

Even after decades of market-oriented and structural reforms, the state in many late-(late)comer economies

continues to play a significant (albeit mostly altered and transformed) role, and continuities in terms of institutions, economic policies and social memories with the past prevail. Statist tendencies have been revived first following the GFC and the exhaustion of the commodity boom, and more recently due to the global COVID-19 pandemic. Simultaneously with the shift in economic policy practices, the economic and developmental role of the state has been brought back to the centre of academic debate and the renaissance of the *developmental state approach* can be observed (Haggard, 2019; Mazzucato, 2013; Wade, 2014; Williams, 2014). This is however not the revival of the old, classic DS paradigm, but a new statist concept is emerging (Ricz, 2016; Wylde, 2017).

Finally as both the VoC literature and the Developmental State school have their limitations to conceptualize contemporary state capitalism this article proposes to rely on the systemic approach as presented by the Hungarian economist, Kornai (2000, 2016). It is argued, that the system paradigm (SP) – especially in its revised form – might be helpful for the comparative analysis of contemporary state capitalism, even though it was mostly applied by Kornai and his followers on the post-socialist transition process. The application of the SP to thoroughly analyse a new phenomenon in a basically new geographical context might be regarded as a novelty, or at least as a new (empirical) test for its robustness.

First, the main attributes of the system paradigm shall be recalled (Kornai, 2000, pp. 121–134): 1. focus on “*the system as a whole*”; 2. analysis embedded in general and comprehensive *social sciences*; 3. focus on *institutions* with a crucial differentiation between the *system-specific characteristics* of a system, and other attributes, which are rather consequences of other circumstances; 4. a *historical perspective* to understand current organization forms of economy, society and politics; 5. the *individual preferences* are embedded in and shaped by the system; 6. focus on the *constantly changing society*, interest in *big changes* and *big transformations*; 7. focus on *intrinsic dysfunctional characteristics* of a system, which cannot be eliminated only alleviated within the boundaries of the system; 8. qualitative and quantitative *comparative analysis*.

As an additional feature (in relation with the currently ongoing global debates on methodological issues in economics, see e.g., Csaba, 2016; Rodrik, 2015) it has to be highlighted, that the methodology of the SP in particular is much *softer*, than that of the mainstream economics relying mostly on mathematical models. As this latter operates on a high abstraction level, and thus looks only at a narrow slice of the real world, while the SP in contrast aims to analyse the system in its entirety,

to capture the reality in the most possible comprehensive way, and for this sake “*it is prepared to make heavy concessions in rigor and exactitude*” (Kornai, 2000, p. 124).

The soft methodology does not only materialize in the *multidisciplinary characteristic* of the analysis, but also in its *vocabulary*. This means rather relying on terms such as *dominant features* or dominance, instead of precisely define exact threshold for one or other aspect (as these precise measures might be very different according to historical, geographical, cultural or other specificities of the given countries). The aim is to reveal tendencies, and not necessarily quantify specific levels, as the *dynamics and directions of changes* are of importance, and not the static picture.

Kornai (2000) has systematically explored the two great systems in the economic realm: the capitalist and socialist system, as two theoretical types of existing socio-political formation (or ideal types using Max Weber’s terminology – see also Hay, 2020). While admitting that actual, individual historical varieties of both capitalism and socialism have existed in different countries, and different time periods, his aim was to identify characteristics distinguishing the two types on the one hand, and to draw attention to commonalities beyond the many individual specificities occurring in each country belonging to the same type, on the other hand. For this sake *primary, system-specific characteristics* were identified, which determine the system as a whole, and which constitute to be *necessary* and *sufficient* for the appearance of the *secondary characteristics*. This *hierarchical relation* between the primary (decisive) characteristics and the secondary (reactive) ones, is however not necessarily a deterministic one.

In the political realm, in the revised form of SP Kornai distinguishes three types: the two traditional politico-governmental forms, democracy and dictatorship, and a third form, called autocracy. However, with Kornai’s words (Kornai, 2016, p. 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*”.

To explore current statist tendencies we are convinced, that looking at – mutually reinforcing – interactions between the economic and political realm is crucial. At first sight, a naïve spectator would probably connect the capitalist system with democracy and socialism with dictatorship, history has however provided evidence that the relation between the different types of economic and political systems is much more complex: capitalism is feasible even without democracy, under

autocratic regime or even under dictatorship, while democracy cannot operate without capitalism (Kornai, 2016, p. 569). Looking at contemporary state capitalist examples the picture is even more nuanced: there are authoritarian<sup>3</sup> and democratic regimes, as well as a range of others falling in between the two ideal types on the political spectrum. Relying on Kurlantzick's (2016, pp. 28–29) interpretation it is straightforward to see that the most authoritarian state-capitalist regimes tend to be the least efficient economically on the longer run (such as Saudi Arabia, Kazakhstan, Uzbekistan, Egypt, Iran, Algeria or Russia). Being the most democratic regime does not necessarily lead to the highest levels of economic efficiency, however some degree of political openness and responsiveness to popular sentiment is needed to make state capitalism economically more efficient over time. Furthermore we contend, that this static picture might be to some extent misleading, as to reveal most recent changes in the political and economic sphere, and the consequent developmental outcomes, qualitative analysis and the exploration of tendencies is of crucial relevance. The more so, as it is suspected that the two processes of autocratic political changes and the rise of state interventionism in the economy are interwoven, and might mutually reinforce each other.

#### The Anatomy of Contemporary State Capitalist Regimes

Acknowledging the fact, that contemporary statist experiments differ from each other in many aspects, the starting point to conceptualize contemporary state capitalism, shall be the analysis of different country cases. At the same time on a higher abstraction level some core characteristics might stand out as defining features of contemporary state capitalism. Based on former research<sup>4</sup> on emerging economies (such as on Brazil, Egypt, South Africa, Argentina and the classic Asian developmental states), and in line with existing economic literature on state capitalism, this section aims at drawing up the operational logic of contemporary state capitalism and highlight some outstanding similarities.

It is presumed, that core mechanisms operate along similar logic in most contemporary state capitalist regimes, as they share the ultimate aim to monopolize political power and to maximize their time in power (more often than not relying on strong, charismatic leaders with personal aspiration to remain in power even beyond the legally, constitutionally allowed periods). Illiberal states are using diverse forms of state interventions in the economy for purely political aims, thus to maintain political power as long as possible. A good example is provided by Yakovlev (2006), who demonstrates how in Russia under little political competition and weak mechanisms of

democratic control the economy (business) was captured by the state for its own purposes. Similar tendencies were present under the 14 years of Worker's Party ruling in Brazil (Saad-Filho & Morais, 2018). Other examples prevail throughout the emerging world.

*Business capture* however is just one tool to maintain political power, and from country to country many *creative* and *innovative* tools can be observed to secure both the economic and political legitimacy of state capitalist regimes. In the economic realm some countries rely on *external* sources (such as oil revenues, EU funds, or unconditional loans from alternative sources), while others are also successful in *internally* raising funds (such as mobilising or even confiscating domestic savings, re-nationalising strategic companies, or relying on monetary policy measures). In reality most state capitalist regimes rely on different combinations of external and internal resources to finance their national priorities. In the political realm the creation of a non-level playing field for democratic elections can be often observed, while political power is also supported by the elimination of potentially critical voices, leading to constraints on free press and media, civil organizations, academic freedom, etc. Economic populist measures have been also on the rise as a means to influence the electorate, ranging from price subventions of basic goods and services via huge prestige investments and mega-sport events to supporting national champions as symbols of national development. Sometimes geopolitical and -strategical aspects, such as aspirations to become a global (or at least regional) leader have been also at play. Nationalist tendencies often go hand in hand with anti-globalist rhetoric, though this rather selectively trickles down to economic policies and practices. The economic viability of these new state capitalist model usually depends heavily on foreign direct investment and multinational companies (both in terms of tax revenues and employment). The positive discriminative treatment of foreign capital is often institutionalized via strategic partnership agreements, while a more negative attitude towards them might materialize in the form of specific tax levies on a selective and discretionary basis (or in extreme cases in nationalization and hostile regulatory or financial measures).

As main cornerstones, or at least some outstanding common elements of contemporary state capitalist regimes the following features can be highlighted:

- the return of the state as designer of economic development (active role in shaping economic structures via multiple channels ranging from ownership rights, and regulatory mechanisms to selective policy measures);

- overarching centralization tendencies prevailing in decision-making and in exercise of power (both in politics and the economy);
- intensifying entanglements of business and politics, leading to state/business capture;
- widespread corruption (rent-seeking, patronage and cronyism) dominating, as an embedded social phenomenon, a special tool of economic coordination;
- legitimacy of strong states/leaders, rooting in socially expected paternalism.

This list also highlights the importance of the interactive linkages between the economic and political realm along the systemic approach, which is essential to understand the operational logic of current state capitalist regimes.

Furthermore, as the ultimate aim of contemporary state capitalist regimes is to maintain political power, questions of economic efficiency and social equality, or the goal of long-term economic development is of secondary relevance at best. A recent volume (Gerócs and Szanyi, 2019) has argued that new “nationalist tendencies” are better captured under the term of economic patriotism (see also Clift & Woll, 2012), however in a very specific form, as these rather serve a tiny part of the nation, the political patriots and loyal (newly established or co-opted) economic elites.

Even if it is admitted that different varieties of contemporary SC co-exist, it might be worth to highlight some further commonalities of most recent illiberal statist tendencies:

- attacks on institutionalized checks and balances, and curtailing the independence of institutions and agencies;
- attacks on the media and free press;
- attacks on minorities and marginalized social groups (and their social mobility);
- attacks on NGO-s and civil organizations, human right groups;
- attacks on the autonomy of science and education;
- attacks on environmental sustainability and justice (and the fight against climate change).

A rather crosscutting issue is also emerging in most observed cases: the spread of overarching corruption and rent-seeking mechanisms draining resources from productive investments and distorting the behaviour of economic agents (Mihályi & Szelényi, 2019), thus posing a heavy threat on long-term economic development trajectory.

Finally, on a rather intuitive way a further aspect might be added: illiberal measures aiming at consolidating

political power on the short term might add up and lead to rather anti- or non-developmental on the longer term. To provide some classic examples we can refer to the short termist business-oriented attacks on environmental sustainability, populist measures acting against social cohesion, or the attacks against the academic freedom and free press. It is also straightforward to see that megalomaniac, nationalist (often luxury and prestige) infrastructural policies drain resources from public budget and lead to underinvestment into productive infrastructure, health and education systems. Overarching centralization and autocratic tendencies tend to limit the chances of bottom up feedback and undermine responsiveness to popular sentiment. All these forces are uncondusive to broadly defined sustainable development (based on structural changes towards a knowledge and innovation-led, socially inclusive and environmental-friendly economic trajectory) on the long run.

Regarding the sustainability of such regimes the striking example might be Venezuela, where the post-Chavista regime is struggling to survive, but this struggle goes on already for more than 6 years. The Venezuelan story also highlights the well-known trade-off in hybrid regimes, when economic legitimacy is waning, increased political repression is often the answer and might lengthen the survival of the political regime (at huge social and economic costs).

On the short run, illiberal capitalist regimes might realize relatively good economic growth, mostly based on some country-specific (and timely constrained) factors (such as the commodity boom, especially high oil prices, external funds or other “creatively raised” internal or even external resources), which might provide these regimes with short-term macro-economic legitimacy. Prioritising short term (political and economic) gains over longer term socio-economic development might be a viable strategy in some cases for some time. The sustainability of the regime depends on the question what happens when it fails on the macroeconomic or social front. Besides Venezuela also Turkey might offer some interesting insights (Kutlay, 2019; Onis, 2019).

It might seem mysterious how and why state capitalist regimes work in the twenty-first century, as it is obvious, that most of these regimes contradict everything we know from development theories and practices, not least regarding the question how to escape the middle-income trap. Even though many debates are still not settled related to the MIT, regarding some basic points there is common agreement in literature: difficulties to catch up go back to the slowdown of productivity growth rates. To restore productivity growth a broad range of *upgrading* policies are needed, which means (among others) “*more and better education*



(especially higher and technical), greater savings and better investment, better infrastructure, and more innovation and  $r$  and  $d$ " (Doner & Schneider, 2016, p. 2). These require institution-intensive qualitative changes which in turn presuppose long time horizons and overarching political commitment (going beyond electoral cycles in democracies). It is straightforward to see, how economic policy practices of current state capitalists contradict all these mentioned elements.

#### Towards a New Concept of Contemporary State Capitalism

A general characteristic of hybrid regimes is that at first sight these tend to look different than they are in reality (we can call this a "hidden" or Janus-faced nature of contemporary state capitalism). In the political sphere, for example, the democratic facade is often maintained to pretend to be democratic (*de jure*), and real (*de facto*) characteristics embodied in practical decisions, implementations and everyday life remain often *hidden* for outsiders (Levitsky & Way, 2002). Similar discrepancies prevail in the economic sphere, such as a privately owned enterprise might be under total or significant (but *hidden*) state control.

To conceptualize contemporary state capitalism three main elements of the system paradigm (Kornai, 2016, p. 553) shall be recalled. First, it has to be explored whether the *dominant political group ensures the dominance of private or public property and of market or bureaucratic coordination*. Assuming that in current state capitalist regimes the ruling political group aims at consolidating its own political power by all means and costs, the ruling political party tends to extend public influence, hurting both private property and market coordination though often on a *hidden* way but to a significant extent.

Accordingly, first the main characteristics of the *political system* of current state capitalist regimes have to be analysed. This needs country-based analysis case by case, however the general intuition is, that in recent state capitalist regimes illiberal political tendencies prevail, hurting political pluralism and participation; voice, accountability and transparency; civil liberties; the rule of law; existing checks and balances; independence of institutions and agencies; freedom of the press, etc.

The second domain to analyse along the systemic approach of Kornai, is the *dominant form of property*. In most cases, this remains private ownership (despite existing re-nationalization examples), however strong tendencies show towards extending government control and influence via various (indirect) channels (Musacchio & Lazzarini, 2014). The political ruling group in most state capitalist regimes relies on rising

state control over the economy. The analysis of these multifaceted forms of state involvements lies at the heart of many existing works in state capitalism research. This includes direct and indirect varieties of state ownership – ranging from state as an entrepreneur, to majority and/or minority shareholder models, to ownership stake or indirect interference via development banks, pension funds or sovereign wealth funds –, but also forced or hidden forms of nationalization, or the building and strengthening of new economic elites, the new oligarchy – selected upon political loyalty – can be mentioned, with many other legal or even informal measures existing.

The third aspect to explore is the *dominance of coordination mechanisms*, which might range from market to bureaucratic, but even ethic and forced mechanisms of coordination might prevail. As these coordination mechanisms might co-exist side by side, it is of crucial relevance to decide which is the dominant force. Most state capitalist regimes show an inherent tendency towards rising formal and informal state (political) control over the economy, which leads to distorting, constraining market forces, and opening ways to non-market types of coordination mechanisms. Government practices to own, guide or even micro-manage the economy differ from case to case (Szanyi, 2019), but among others these might take the following forms: economic and market regulation; industrial and development policies; state-business entanglements, in particular meddling with prices, creating formal or informal entry barriers, applying selective and discretionary measures to provide or constrain competitive advantages of certain actors/sectors, such as building strategic alliances with selected private enterprises (to co-opt them with discretionary tools via direct support – such as tax exemptions – or via indirect methods – such as public procurement practices, etc.). The reliance on discretionary decisions, centralization of decision-making and the increasing role of relational mechanisms, personal ties became dominant in recent state capitalist experiments (Kollai, 2020). This has resulted that extensive and embedded corruption and rent-seeking mechanisms became an inherent feature of recent state capitalist regimes, and are more and more considered as a systemic characteristic (Szelényi & Mihályi, 2020). Corruption and rent-seeking schemes in these cases relate to political hierarchies and ties, and ensure the loyalty of insiders (along the conventional populist sentiment, namely "who is not with us is against us").

Looking towards the secondary characteristics the picture gets even more blurred, and it is less possible

to stick strongly to the original structure of Kornai's analysis. In terms of the power relations between the two sides of the market for goods and services, current state capitalist regimes are closer to the classic capitalist supply economies (though extreme counter examples exist, such as Venezuela). Looking at the power relations between the two sides of the labour market, it is rather difficult to draw up any general tendency, as it depends heavily on country-specific characteristics, such as historical, institutional and social factors, or the rates and qualities of economic growth. Regarding the resulting income distribution the results are similarly indecisive, however tendencies show towards increasing divide between the new elite and the ordinary people (with traditional channels of social mobility often destroyed), but levels of inequality are rather path dependent (with some exceptions, such as the Latin American cases in the post-2000 era). Regarding the speed and qualitative features of technical progress (innovation) and the softness or hardness of the budget constraint for firms, current state-capitalist regimes resemble more the typical socialist economies. We just have to recall the rather soft budget constraints for politically loyal national firms, and the fact that by switching off market-based competitive pressures technological progress tends to slow down and the incentives (and thus probability) to generate revolutionary innovation are weakened.

To sum up it has been argued that in current state-capitalist regimes the ruling political group aims to raise exclusive and discretionary power to decide upon ownership forms and upon the mixes (boundaries) of market and bureaucratic coordination. In this undertaking most state capitalists rely on centralized exercise of power, further reinforced by personalist rule, where the power is often concentrated in the hand of one strong, charismatic leader.

## Conclusions

A new model of state capitalism has emerged during the last decades throughout the emerging world. In emerging economies and in some countries of the post-socialist world state interventionism is a more entrenched characteristic (and not a transitional phenomenon) with long historical roots and social embeddedness, revealing different characteristics as the classic capitalist or socialist models.

Current economic literature on state capitalism is most often focusing on the rising role of state ownership, and policies promoting national champions (Musacchio & Lazzarini, 2014; Naughton & Tsai, 2015). It has been argued that these issues represent only one layer of the rising state dominance over the economy and the current version of state capitalism represents "a complex

*systemic change involving changes in economic and market regulations, development policy, social policies and possesses strong linkages to political institutions"* (Szanyi, 2018, p. 143).

A broad conceptual framework was proposed to account for the characteristics of both the economic and political sphere, by applying the Kornai's (revised) system paradigm (and going beyond its traditional terrain).

State capitalism was understood as a robust, rising and complex role of the state in the economy with the ultimate aim to consolidate political power of the ruling elite. In this interpretation state capitalism goes beyond state ownership, and shall be regarded as a distinct type of politico-economic organizational form, in which the state aims to take the leading role in the economic and political sphere, while maintaining (at least not fully eliminating) basic tenets of capitalism, such as a certain degree of market coordination and private property. At the same time, systemic changes attack the conventional tenets of market economies, though often on a hidden, less visible way, and consequently it is more difficult to monitor and depict (or even quantify) these changes (along the hidden or Janus-faced nature of hybrid regimes in general, and contemporary state capitalism in particular). Parallel to the newly emerging autocracies or hybrid political regimes, it can be seen that in the economic realm new statist tendencies are hacking the economic systems from within. These tend to maintain the facades and pretend the usual (market-led) business and economic mechanisms, however beyond the surface new state-(or even politics-) led practices emerge and dominate. The article has provided a first attempt to conceptualize state capitalism as a hybrid category between the two great economic system types, capitalism and socialism. The outbreak of the coronavirus pandemic has led to significant changes with regard to the role of state in the economy worldwide. It is however yet to be seen, whether related changes remain cyclical in their nature (as it is presumed in the more advanced world), or whether some illiberal leaders will use the pandemic as a pretext to further strengthen their rule and radicalize their statist regimes (as first tendencies tend to reveal in some emerging economies). Yet, we still lack the historical perspective to make any preliminary statement regarding these tendencies and expected outcomes.

The article has highlighted that on a lower abstraction level national differences exist (and might be reinforced and/or modified by the different strategies applied in response to the COVID-19 pandemic). Consequently, national varieties of state capitalism can be differentiated and shall be further analysed. A new research agenda on the Varieties of State Capitalism (VoSC) is in place.

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2. <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>
3. Kurlantzick (2016) uses the term autocracy/autocratic as the end point of the political spectrum, which in most political science literature is rather referred to as authoritarian regime or dictatorship. Along with Kornai (2016) we also stick to this latter terminology.
4. Research conducted within the Institute of World Economics (IWE) under the aegis of the Hungarian Academy of Sciences (HAS) during the last years and decades (see eg. Gerócs and Szanyi, 2019; Szanyi, 2019). IWE was part of the network of research institutes which has been stripped of the HAS by a new legislation in Summer 2019, as part of the systemic attack against academic freedom in Hungary.

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