

THE CHANGING FACE OF CAPITALISM: THE STATE CAPITALISM

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Abstract

As the globalisation process is speeding up, new or revamped concepts are taking shape with respect to macroeconomic management at country or regional level. One of the most debated such concepts is the "state capitalism". Broadly defined as an economic system where the state, in its endeavour to ensure an efficient economic development, relies on capitalist ways and means of managing the economy, the state capitalism is mostly visible in emergent economies. China and Brazil are most telling examples in this sense. The significance of the phenomenon represented by the state capitalism was highlighted during and in the aftermath of the last economic and financial crisis.

Key words: *emergent economies, financial crisis, globalisation, state capitalism*

1. GLOBALISATION AND THE STATE CAPITALISM

In the world of today distances are narrowing and time is becoming shorter. These are the results of the ample process of globalisation, which is gradually embracing the whole socio-economic life. In its broadest sense, the globalisation may be defined as "the extension, deepening and acceleration of the interconnections at the global level in all the components of the contemporary social life".¹ The globalisation is a comprehensive phenomenon, which includes the three components of human interactions: the political, the economic and, finally, the socio-cultural one.²

Having as background the recent economic and financial crisis, and as a consequence of, *inter alia*, growing trade and capital flows liberalisation, globalisation is speeding up. New economic powers are emerging, the BRICS Group (made up of Brazil, Russia, India, China and South Africa) offering a telling example.³ China is asserting itself as the world's biggest exporter and second largest economy, while the other BRICS countries are increasing their share in the world economy.

A major dilemma put forward by the turmoil occurring in the international arena refers to who comes first – the state, or the market? The absolutist pro-market positions are fading away, in favour of more nuanced ones. A new syntagm is finding its way in the economic theory and practice: the "state capitalism". While recognising the prime role of market mechanisms, the supporters of this concept maintain that, in many cases, the use by the state of market tools may be much more efficient than the other way around. The most quoted example in this respect is the Chinese experience.⁴

There are quite numerous opinions either favourable to, or opposing the idea of state capitalism, especially in the context of the lingering effects of the 2007/2009 global economic and financial crisis. Although most of them are positive, those expressing doubts about that formula are equally significant. In this latter sense, worth mentioning is Romanian professor Ilie Șerbănescu's stand who, comparing the present concept of state capitalism to the old Marxist theory of the state monopolistic capitalism, considers that both of them are based on the (interested) union between the state and big

¹ Held, D., McGrew, A., Goldblatt, D., Perraton, J., *Global Transformations: Politics, Economics and Culture*, Stanford, 1999 (quoted by Goldstein, J. S. and Pevehouse, J. C. in *Relații internaționale*, Polirom, Iași, 2008, p. 400).

² Apahideanu, I., "Globalizarea între concept și realitatea desemnată", în Miroiu, A. și Ungureanu, R. S. (coord.), *Manual de relații internaționale*, Editura Polirom, Iași, 2006.

³ Constantinescu, A., "BRICS: The Club of Emergent Powers", *Geostrategic Pulse*, No. 181, Year VIII, INGEPO, Brasov (Romania), 20 December 2014, pp. 19-22.

⁴ Roche, F., "A quoi ressemblera la Chine en 2030?", *Problèmes économiques* No. 3066, La documentation française, Paris, April 2013, pp. 11-19.

monopolies aiming at preserving and promoting the system's very existence and interests. Further, he categorically maintains that "a truly free market economy does not exist; the state intervenes massively and without hesitation whenever judged necessary (...)"⁵.

Under the present circumstances, it seems there is a growing need for the state's intervention in the socio-economic life. Indeed, the state has to pursue at least four main azimuths, namely: (i) ensuring the normal financing of the economy; (ii) encouraging the transition towards an environment-friendly economy (the "green economy"); (iii) rethinking the ambitious European integration/federalisation project; and (iv) preserving the social cohesion.

Paradoxically though, there are two broad potential impediments for this: (i) the state disposes of less and less means of intervention, and (ii) even if there are such means of intervention, there is a chronic inefficiency in their use. This is where the state capitalism must come in. The "marriage" between medium- and long-term state's objectives and, respectively, market instruments used by the state to achieve those objectives has to be based on pragmatism. Such pragmatism implies, in the first place, the recognition of the key role played by the capital (irrespective of its origins and the way to be used) in the economic development (the universality of the capital). Secondly, the pragmatism in question requires the mere elimination of the ideological approach of the capital (in other words, its "des-ideologisation").

2. THE UNIVERSALITY OF THE CAPITAL

Certain supporters of the ultra-leftist idea that capitalism amounts to colonialism plus slavery try to argue against the absolute necessity of capital flows in the economy. Such assertions are illogical, leading to positions at least bizarre, as for example: (i) foreign capital differs from the domestic one; (ii) the capital is immoral because it seeks only profits, obtained by ruthlessly exploiting the producers of added value; (iii) the capital should be taxed more drastically than the labour force; (iv) the capital should not be allowed to freely move between countries, because it perpetrates contagious crises.⁶

It is a matter of evidence that the development of the society would be practically impossible in the absence of necessary capital. Therefore, to consider the capital an accessory element, of secondary importance for the productive processes would be a fundamental error. This is because whoever chooses the market as the "engine" for reaching prosperity – both individual and collective – should also provide the "fuel" for this engine to function. Or, the capital is exactly that irreplaceable fuel: it is not a means of human exploitation (as maintained by the Marxist theory), but one used for securing the resources – labour, raw materials, etc. – required by the production of goods and services.

The capitalists, be they nationals or foreigners, are neither slaves owners, nor colonialists, but possessors of capitals which they want to be brought to fruition as efficiently as possible. Consequently, the relationship between capitalists and the economic environment involves the use of the capital for acquiring human and material resources in order to offer the market larger quantities of goods obtained with lesser efforts.

The foreign capitalist does not forcefully hire and employ local labour. On the contrary, individuals may freely decide to join the entrepreneurial efforts proposed by the said capitalist. It is of course evident that the labour market is significantly influenced by the competition, i.e. by how many capitalists (foreign or local) are competing for the available labour force.

At the same time, neither foreign, nor local capitalists can be considered as being "slaves' owners" as long as their success depends upon profits generated by consumers who, from their own will, are buying from those capitalists. They are buying not because they have no choice, but because they prefer the respective goods thanks, *inter alia*, to their higher quality and/or better price. Or,

⁵ Șerbănescu, I., 'Redescoperirea capitalismului de stat', *Revista* 22, 21.02.2013 [Online] Available at: <http://www.revista22.ro/redescoperirea-capitalismului-de-stat-4888.html> Retrieved on 19 December 2014.

⁶ Păun, C., 'Poate avea capitalul naționalitate?' [Online] Available at: <http://cristianpaun.financiare.ro> Retrieved on 8 March 2015.

presumably, such higher quality and better price cannot be achieved in the absence of new injections of fresh capital.

It is thus clear that without capital the human society would have been left at an incipient development phase. The capital exists only when beforehand somebody, somewhere is making savings by refraining from certain present consumptions in favour of ensuring the resources for future, more important ones. Governments which are really looking for the progress of those governed should not adopt and implement nationalistic policies whereby capitals are divided into “good” and “bad”, depending upon their origins, but encourage the attraction and accumulation of capitals, irrespective of their sources.⁷

In other words, the capital is universal: it is the unique sustainable source of development and prosperity.

3. THE “DES-IDEOLOGISATION” OF THE STATE CAPITALISM

Another issue related to capital and capitalism is the high ideological content of the analyses. Notwithstanding, though, such ideologically-biased approaches, the reality singles out the fact that, under certain conditions, specific mechanisms pertaining to the state capitalism can play a positive role in the process of economic development. But in order for this to come true there is a need for enhanced pragmatism in drawing up and implementing the most appropriate economic policies. This is precisely the reason why during the last 15-20 years a vigorous offensive of the economic pragmatism is noticeable, concomitantly with the steep decline of the ideological approaches in the field. In other words, the key to the success of state capitalism resides in its “des-ideologisation”.

The exceptionally high growth rates registered by China and Brazil stand proof for the effectiveness of this process. One of the main vectors of success is the formation of big, very powerful enterprises with state participation, especially in the fields of energy and telecommunications, as well as in the financial sector. In quite a number of cases, however, the rapid development of this form of capitalism is marred by significant flaws, as, for example, corruption, nepotism and trading of favours. Also, certain practices related to the state capitalism are clearly infringing the rules of world trade as set forth by the World Trade Organisation (WTO) and, consequently, this may lead to a tighter organisation and stricter surveillance of the markets.⁸

4. THE CRISIS OF LIBERAL CAPITALISM

Looking retrospectively, it is to be noted that for a long period, between 1900 and 1970, the supporters of the state’s intervention in the economy were the winners of the case. The states began to build a system of social protection; they also proceeded to the nationalisation of large sectors of their national economies. However, between 1970 and 2000 the free trade advocates came back in force. Ronald Reagan and Margaret Thatcher were the champions, giving the starting signal for the privatisation of state-owned companies, as well as for drastically cutting the role of the “state-purveyor”.

The triumphal march of free trade was suddenly stopped, and the crisis that triggered Lehman Brothers’ bankruptcy in 2008 spread practically in all rich countries. Weaker countries (e.g. Greece) plunged in chaos. Even the US, despite its military and economic might, witnessed the continuous fall of the mid-qualified worker’s average real wage gains.

Attempting to explain this rather negative situation, there were voices blaming for this the so-called “dictatorship” exerted by markets over the (global) economy. But, is there, in earnest, such a dictatorship?

⁷ *Ibidem*

⁸ Constantinescu, A., “Recalibrating the Economic Policies of the Asian Giants: China and Japan”, *Geostrategic Pulse* No. 172, Year VIII, INGEPO, Brasov (Romania), 20 July 2014, pp. 28-32.

Traditionally, the short-term vision of the markets - generated by their propensity towards reaping as high as possible profits - is put in antithesis with the long-term strategies of the states - which aim at satisfying the general interest. According to this antithesis, markets would function in keeping with the immediate actuality, making use of recent information, while states would concentrate on the long-run targets. However, recent events do not seem to fully warrant this thesis: quite a number of states did not manage their public finances in such a way as to ensure their sustainability. They amassed huge current account deficits and left the burden of short-term debts with the generations to come. At the same time, they allowed current expenses of the state institutions to outrun those initially earmarked for investments. Also, while the population was getting older, they delayed the adjustment of the pension system and of other forms of inter-generational transfers.

Strictly from the economic point of view, the generalisation of the Keynesian theory whereby effective economic re-launching is primarily consumption-driven does not stand, since the recent crisis was not one of sub-consumption, but one of over-indebtedness and overconsumption.

Most of the economic analysts are of the opinion that using the term “dictatorship” when discussing the role of financial markets in fomenting the crisis is an exaggeration. However, it is true that the lax, unsustainable monetary policies greatly contributed to eroding the states’ positions *vis-à-vis* the respective markets. On the other hand, one cannot overlook the fact that financial markets were the object of numerous criticisms, especially after the unleashing of the 2007/2009 crisis. Thus, it is maintained that speculations are the single objective of these markets, that they react only on short term and that these reactions are exaggerated, being based solely on the opinions - very often irresponsible - expressed by the rating agencies.

The crisis of the liberal capitalism was deepened by the gradual assertion of a stronger and stronger alternative - the state capitalism -, which attempts to associate the advantages of the state system with the ones of classic capitalism. Under such circumstances, the government can make a choice of the best tactical tools capable to catalyse the economic development. In the same vein, it can also make use of capitalist instruments (such as listing public enterprises with the stock exchange) and adopt a strategy of globalisation (by encouraging the same public entities to act globally).⁹

Historically, embryos of state capitalism can be traced back in the 1870s, in Germany, and later on in Japan, in the 1950s. But, keeping the proportions, it was never as important for the economic development as it is today.¹⁰

5. THE ADVANCE OF STATE CAPITALISM

The state capitalism can be credited with the biggest success registered so far by the world economy: the extraordinary expansion of the Chinese economy. Thus, during the last 30 years China’s GDP progressed at an annual average rate of 9.5 per cent, and its foreign trade - at a double-digit rate: almost 18 per cent. In the last decade China’s GDP has tripled, reaching USD 11,000 billion, a figure that places the country in the second position of the top-10 economies in the world (in front of Japan and just behind the USA). It is also worth mentioning that the Chinese state is the principal shareholder of the biggest 150 companies in the country; also the state is the main planner and promoter of the activity of thousands of other companies. At the same time, it conditions the domestic market by controlling the national currency and directing credits towards favoured industrial sectors. It also closely follows the activity of companies with Chinese participation abroad.

The state capitalism can also be credited with setting up some of the largest and most successful corporations in the world. Thus, the biggest 13 oil companies in the world, which control over three quarters of the world’s oil reserves, are all related in some way to the state. The same is true for

⁹ Gosset-Gainville, A., “Un Etat promoteur, *Problèmes économiques* no. 3055, La documentation française, November 2012, pp. 44-45.

¹⁰ *State Capitalism* [Online] Available at: http://en.wikipedia.org/wiki/State_capitalism Retrieved on 9 November 2014.

natural gas, where, for instance, the Russian giant Gazprom is to a large extent dependent upon the state.

Successful public companies can be found in almost all economic sectors. Some examples may be illustrative in this respect: China Mobile is an enormous mobile telephone company, with more than 600 million subscribers; Saudi Basic Industries Corporation is one of the petrochemical companies with the biggest profits in the world; the Russian bank Sberbank holds the third position in Europe in terms of market capitalisation; Dubai Ports is the third harbour operator in the world; finally, the air transporter Emirates is growing at an annual rate of roughly 20 per cent.¹¹

The state capitalism continues its advance. Its liquidities are overflowing and it is stimulated by the crisis in developed countries. Public companies hold 80 per cent of the stock exchange capitalisation in China, 62 per cent in Russia and 38 per cent in Brazil. They make up for one third of the total foreign direct investment (FDI) made between 2003 and 2010. Very significant is also the fact that three Chinese public companies mark their presence in the top-10 largest companies in the world, as compared to only two from Europe.

The permanent offensive of the state capitalism is also mirrored by two other examples which may seem minor, but in reality are symbolic: by means of investments made through its main sovereign wealth fund (Abu Dhabi Investment Authority – ADIA), the emirate acquired 90 per cent of the Chrysler Building in New York, and became the owner of Football Club Manchester City.¹²

Today, the state capitalism differs significantly from its previous formulas. First, it advances on a much larger scale than before: China alone is home for approximately 20 per cent of the world's population. Second, the present-day state capitalism found its “cruise speed” much quicker than in the past: It is only in the last decade that China and Russia defined its outline. Third, it has at its disposal much more sophisticated instruments to act for achieving the prescribed objectives.

However, there are persistent doubts with respect to the state capitalism's capacity to capitalise its own success not only when it is about catching up with the level of development achieved by others, but especially when the issue of innovation comes up.

6. FINANCIAL CRISIS AND STATE CAPITALISM

The recent financial crisis has significantly modified the state's area of action. First, by singling out the obsolete character of the idea of market self-regulation, and then by limiting the state's ability to apply its economic policies.

The Western world is facing a paradox: on one hand, the recent unprecedented financial crisis seemingly calls for the states' intervention in the economic and social life of the society; on the other hand, the states dispose of less and less such necessary means of intervention.

During the last decades, the steady liberalisation of capital flows induced the idea that the state could disengage from the financing of the economy. In fact, this assertion is false, since in the absence of the state's determined involvement – by means of fair and efficient regulation of the markets – the confidence in the respective markets grows thinner, and the financing becomes more onerous. Private investors are thus compelled to limit or restrain their activity, while public investors are unable to make up for insufficient financing. Consequently, a wild race for attracting funds is manifest on the international capital markets. The individual investors – be they public or private – being unable to face up to this fierce competition, it is imperative that the states take the lead in securing the necessary medium- and long-run financing of the economy.

Having in mind the above and taking Europe as target of their reasoning, quite a number of advised analysts are of the opinion that the European states should take advantage of the funds the long-term

¹¹ ‘Special Report: State Capitalism - The Visible Hand’, in *The Economist*, January 2, 2012 [Online]. Available at: <http://www.economist.com/node/21542931> Retrieved on 9 September 2014

¹² *Ibidem*

investors (sovereign wealth funds, pension funds, etc.) from all over the Planet would be willing to invest in this part of the world, which keeps exerting a strong attractiveness. Those investors can consolidate the markets, especially during unstable, erratic periods of economic and financial crisis. At the same time, they have the capacity to “mutualise” the risks among generations: while in the absence of long-term investments each category of age would have to bear the market risks during its own existence, what this kind of investments is doing is to act in the benefit of future generations.¹³

Given its seriousness, the recent financial crisis has launched a debate on what should be from now on the state’s role in the economy. The widely admitted idea which seems to come out of this debate was the one of putting to work the “state-promoter”. Its mission should be to preserve and improve the flexibility and creativity of the markets, with the aim to achieve long-term objectives, desirable from the social point of view.

7. CONCLUSION

The state capitalism is becoming a preferred way of achieving economic and social development mainly in countries with emerging, dynamic economies. In recent years, with average annual growth rates of at least 5.5-6 per cent (as compared to 1.5-2 per cent in the case of developed ones), these countries became the front runners in the race for global development. Consequently, it is expected that at the horizon of the year 2020 their contribution to the world’s GDP formation will reach 50 per cent.

The state capitalism appears to be more and more the developmental trend of the future. This is due to the fact that the state seems to be the winner in its competition with the market. In other words, a surreptitious change of priorities seems to be underway: the overall market-dominated economic strategies are more and more letting the place to the state-oriented strategies.

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¹³ Gosset-Gainville, A., *op.cit.*, p. 43.

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