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State capitalism and the rent-seeking conjecture

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Abstract The notion that state capitalism (an economic system "in which the state functions as the leading economic actor and uses markets primarily for political gain") is a new form of capitalism emerging in the global arena has been recently advanced by several authors. This paper explores the problem of the nature of this system in the light of these claims to novelty. What are its main features as described by these authors? Is state capitalism distinctive from other forms of capitalism or other types of economic systems? Are we really witnessing the emergence of a new type of economic system? To address such questions the paper starts by trying to place the model of state capitalism within the traditional comparative economic systems framework. The inconclusive result leads to a different approach in which the concept of rent-seeking society is used to underlie the structural similarities between mercantilism, real life socialism and state capitalism. The article argues that the conjecture that what has been labeled "state capitalism" is yet another form of rent-seeking system is both robust and worth further investigating.

Keywords State capitalism · Mercantilism · Rent-seeking · Comparative economic systems · Political economy

JEL Classification P10 · P16 · P20 · P51 · D72 · F59

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1 Introduction

The global economic turbulence induced by the unprecedented US and UE economic crises, the rise of the BRICs "emerging economies" and the challenges they bring to the global arena, the uncertainties of the global economic governance system (trade, finance, regulation) have all raised fresh and important questions regarding the nature and future of the global economy. The question of alternative types of economic systems, in particular the search for the most efficient forms of organizing a national economy in the context of globalization, seems to have regained its relevancy. Questioning the long run viability of Western-style capitalism (be it of the Anglo-Saxon variety or of the Continental type) is ever more intense. Institutional imagination seems to have wakened up to a new life out of the slumber in which it has fallen during the first two decades following the end of the Cold War and the (apparent) triumph of Western Capitalism. In these circumstances, it is not surprising that novel ideas about the possibility of new varieties of capitalism or even of new economic systems altogether are imagined and discussed.

This is the context in which many observers and commentators think that they can already spot a trend towards the emergence of a new form of an economic system. The best known and most influential such a claim was made by Ian Bremmer. Both in a widely discussed article in *Foreign Affairs* and in a follow up book (Bremmer 2009, 2010), Bremmer launched the idea of "state capitalism", an economic system "in which the state functions as the leading economic actor and uses markets primarily for political gain". Several questions arise in respect to these claims of novelty. This paper explores the most basic of them: Is the idea of a new "state" capitalism valid? What makes state capitalism distinctive from other forms of capitalism or other types of economic systems? Are we really witnessing the emergence of a new type of economic system?

This article starts with an overview of the notion of state capitalism and the related notion of geo-economics. Then, in search for a more precise formula, it places and discusses the concept of state capitalism within the standard comparative economic systems framework. The exercise has mixed results but in the end it leads to a clearer identification of the pattern of similarities between what has been called "state capitalism" and traditional "mercantilism". This discussion leads to a modern "the rent-seeking conjecture", according to which state capitalism is best understood as a modern version of rent-seeking society. The similarities with real-life socialism are discussed from this perspective, and some implications of the rent-seeking perspective on state capitalism are laid out.

2 The problem

Across the world, wrote Bremmer in his *Foreign Affairs* article, "the free market is being overtaken by state capitalism". In the West and the developed world, the recent wave of state interventionism is meant to be temporary as "the governments of developed countries do not intend to manage these economies indefinitely".

However, in other parts of the world "an opposing intention lies behind similar interventions". There, "the state's heavy hand in the economy is signaling a strategic rejection of free-market doctrine." Bremmer claims thus to have identified a novel and important trend: "The free-market tide has now receded. In its place has come state capitalism… This trend has stoked a new global competition, not between rival political ideologies but between competing economic models. And with the injection of politics into economic decision-making, an entirely different set of winners and losers is emerging" (Bremmer 2009, 40–41). Bremmer is not alone in these views. Echoes of this theme are often heard from other authors (Luttwak 1993, 1999; De Long and Cohen 2010; Rickards 2011; The Economist 2012). For instance, as Rickards (2011, 149) put it, "[a]n overview of the forces of globalization and state capitalism, a new version of seventeenth-century mercantilism in which corporations are extensions of state power, is a step toward understanding the grave dangers facing the world economy today." Similarly, *The Economist* (2012) has noted that "[t]he crisis of liberal capitalism has been rendered more serious by the rise of a *potent alternative: state capitalism*, which tries to meld the powers of the state with the power of capitalism. It depends on government to pick winners and promote economic growth. But it also uses capitalist tools such as listing state-owned companies on the stockmarket and embracing globalisation." [emphasis added].

All these views are predicated on the classical model of the relationship between the twin goals of statecraft: political and economic, the relationship and the trade-off between "power and plenty" (Viner 1948). Unlike "crony capitalism" and other forms of interventionist systems in which politics is clearly merely a means for some ruling elite to obtain more wealth, in the case of state capitalism the political strategic aspects are presumably mostly defined in terms of "national interest" and take a much more preeminent role. Although the interpretative and explanatory appeal to the mercantilist model is tempting, Bremmer claims that state capitalism represents either a genuinely new development, different from mercantilism and neo-mercantilism, or, at least, an innovative "add-on" to a neo-mercantilist scheme sufficient to lead to a systemic mutation.

Such claims dovetail in an interesting way to claims made in a parallel discussion, built around a related concept: geo-economics. Geo-economics emerged in the 1990s as a distinctive geo-strategic concept that claimed to describe the new strategic situation materializing in the post- Cold War era. It conceptualized the hypothetically new state of economic "warfare" between the leading economies of the world, and an approach stressing the tactical and strategic dimensions of economic factors and institutions. In the new circumstances, the threats to national security were not so much the classical military ones, but rather economic policy measures involving aggressive government support for domestic economic producers and against their foreign competitors. The intrinsic adversarial attitude between states in the international arena is now expressed chiefly by economic means. This new version of the ancient rivalry of states is what Luttwak (1990, 1993, 1999), the leading sponsor of the notion, called "geo-economics" (Feder 1996; Lorot 1999). Geo-economics is thus in a way the product of the progress of civilization, a characteristic of the most advanced stages of its evolution. To support this claim of historical uniqueness, Luttwak tries as well to distance geo-economics from classical mercantilism and to show that geo-economics is more than "an unnecessary new word for an ancient practice" (Luttwak 1993, 41). There is indeed one similarity: in both cases states go beyond their citizens' natural propensity to barter and exchange for private goals and try to enlist their exchanges to a broader state-centered strategy. Nevertheless, he claims, the differences are significant.

The notions of "state capitalism" and of "geo-economics" can thus be seen as related facets of a composite concept that captures two aspects of a complex phenomenon. Both are presented by their promoters as reflecting a new reality: modes of capturing a trend that is evolving in real time on the global economic arena. Both acknowledge that the term mercantilism may be seen as a tempting label but both reject it. To sum up, with or without the reference to mercantilism, Bremmer and Luttwak put forward a challenging thesis: It may be the case that we are witnessing the emergence of (1) a new pattern of the state-markets relationship, (2) a new configuration of the specific instruments and processes defining contemporary capitalism and (3) a new strategic doctrine associated to it. In conjunction, these three are changing (or are potentially able to change) the entire structure and functioning of the global economy.

Such a discussion, starting from such questions, places our topic at the conceptual and methodological core of the discipline of comparative economic systems. Consequently, the distinction between *models* and *cases*, on which the entire discipline of comparative systems is built becomes crucial for our discussion. On one hand, *models* of economic systems "are simplified abstractions presenting the main institutional features and operating characteristics of different types of economic systems" (Bornstein 1994, 15). They are often based on (or inspired by) "one or more important real-world economies, although they purport to represent general types rather than specific economies". On the other hand, a *case* deals with "an actual economy, which typically incorporates features from various pure models". Each specific case is different, as it "has its own unique combination of social preference function, institutions and instruments, and patterns of resource allocation and income distribution" (Bornstein 1994, 9).

The distinction is crucial and it helps us to focus our investigation. In its light, one can see that, in order to make his argument, Bremmer has used observations about a series of *cases* (specific economies such as Russia, China or Middle East oil-rich countries), from which he inferred the emergence of a new system—a *model* with certain institutional features and operating characteristics. Our key question is the following: Can one indeed discern, beyond the respective cases, the contours of a truly novel model? How different is this emerging model from other pre-existing models (such as mercantilism)? Or, projecting the entire discussion on a comparative economic systems taxonomical framework background, we can also ask: How does the notion of state capitalism (and the associated doctrine of geo-economics) fare in that conceptual context? Where can it be placed in a standard typology of economic systems? Is it a type in itself, deserving its own and unique domain, or is it a variety of some already well-established type?

3 State capitalism and geo-economics: an overview

Before proceeding, let us note in anticipation of a discussion that will take place in the next sections, that the concept of "state capitalism" has been previously employed in the traditional literature on comparative economic systems (Holesovsky 1977). The older concept, useful for understanding many developing countries after the Second World War, is in many ways akin to Bremmer's. The most important novelty is that Bremmer points out to the importance of SWFs and state owned enterprises as instruments for increasing government revenue as well as the new international environment. This has nonetheless important consequences, vital for instance for understanding the political dynamics within oil-rich countries: as the government relies less on taxation for its revenues, it is more independent of its citizens and, thus, can more easily eschew calls for political representation and democracy.

Bremmer (2009, 2010) highlights four main "actors" through which state capitalism functions: national oil corporations, state-owned enterprises, privately owned national champions, and sovereign wealth funds (SWFs). After the configuration of state capitalism is outlined through its components, the mechanism of its operating principle, subordinating markets to political power, becomes clearer. State capitalism, "is a system in which the state dominates markets primarily for political gain." It uses the free market system—for instance free rides the relatively liberal global trade system—to get rich and influential. It uses influence and power for objectives that could end up undermining the very system of free markets. According to Bremmer, in order to understand the nature of this paradigmatic change towards a new type of capitalism, we need to understand the four "actors" to give more substance to the phenomenon in question.

National oil corporations are the largest oil companies in the world and are state-owned. "[P]rivately owned multinationals," writes Bremmer (2009, 40), "now produce just ten percent of the world's oil and hold just three percent of its reserves". State-owned companies control more than 75 % of global oil reserves and production.[1] The 13 largest oil companies in the world, measured by their reserves, are owned and operated by governments.

State-owned enterprises succeed in making large profits, often on their own national markets, by means of their legal monopoly status or strongly favored status against potential private competitors. Their areas of activity include "petrochemicals, power generation, mining, iron and steel production, port management and shipping, weapons manufacturing, cars, heavy machinery, telecommunications, and aviation" (Bremmer 2009, 40). The reason for owning these enterprises is not concerned purely with obtaining revenue; it also has a strategic-ideological dimension, as governments "want to use the market to bolster their own domestic political positions. State-owned enterprises help them do this, in part by consolidating whole industrial sectors." (Bremmer 2009, 40)

[1] The biggest players are "companies such as Saudi Arabia's Saudi Aramco; the National Iranian Oil Company; Petróleos de Venezuela, S.A.; Russia's Gazprom and Rosneft; the China National Petroleum Corporation; Malaysia's Petronas; and Brazil's Petrobras" (Bremmer 2009).

The ideological dimension is even more salient in relation to *privately-owned national champions*. These are “large companies that remain in private hands [and which] rely on government patronage in the form of credit, contracts, and subsidies” (Bremmer 2009, 40–41). Governments often favor nation champions against foreign competition out of nationalism, in order to maintain the supremacy of domestic companies within the country and also to help them in export markets.

Last but not least, *sovereign welfare funds* (SWFs) are “state-owned investment funds with mixed portfolios of foreign currencies, government bonds, real estate, precious metals, and direct stakes in—and sometimes majority ownership of—a host of domestic and foreign firms.” (Bremmer 2009, 40–41) They are accumulations of assets invested worldwide, ultimately controlled by the state. Hence the name, “sovereign”: Their owners are not individuals who are subject to governments, but rather they are the governments themselves. Their total net value was \$3 trillion by the end of 2008, this latter figure approached the total global holdings in foreign currency of central banks and exceeded the combined assets hold by all hedge funds worldwide. Even more noteworthy is their purpose: not industrial development, stabilization policy, support of the welfare state, or some other government function, but wealth management for a high return on investment and for strategic reasons. As Rickards (2011, 7–8) explains, “[t]raditionally these reserves were managed by the central banks of those countries in a highly conservative manner… This strategy offered liquidity but did not provide much income … So the sovereign wealth funds began to emerge to better manage these investments.” This change might prove very significant not just because it provides governments with a large alternative source of income, independent of taxation, monetary expansion and borrowing, but also because sovereign wealth funds, operating through front companies, such as trusts or private Swiss banks, “could then be used to exercise malign influence over target companies in order to steal technology, sabotage new projects, stifle competition, engage in bid rigging, recruit agents or manipulate markets” (Rickards 2011, chapter 1). Last but not least, Bremmer is also keen to note the growth of “other government-controlled accumulations of foreign assets”: an estimated \$6 trillion of official foreign exchange reserves worldwide, a number growing rapidly; at least \$5 trillion in government-controlled pension funds, development funds, and state stakes in private enterprises.

The authors exploring the issue also make several predictions: State capitalist economies are likely to emerge from the recession with strong resources and control over an unprecedented level of economic activity. Already they are using their resources in a propaganda battle against US and free market capitalism. The global recession has undermined the confidence in the free-market model and the governments of China, Russia and others argue that they offer a better alternative model. As Bremmer (2009, 53–54) put it,

> The rivalry between democratic capitalism and state capitalism is not like the rivalry between capitalism and communism. It is an interdependent rivalry. State capitalist enterprises invest heavily in democratic capitalist enterprises (but they tend not to invest in each other). Both sides rely on each other in

> interlocking trade networks. Nonetheless, there is rivalry. There is a rivalry over prestige. What system works better to produce security and growth? What system should emerging and struggling democratic nations aim for?

While Bremmer is describing the structural and operational dimension of the "new reality" as well as some of its broader implications, Luttwak's arguments offer an extension of the discussion in the realm of some psychological and sociological elements that fuel the type of phenomena described by Bremmer. Luttwak adds thus a couple of important tones and colors to the picture. As described by him, the term "geo-economics" means nothing more than "the continuation of the ancient rivalry of the nations by new economic means", describing a situation in which instead of "measuring progress by how far the fighting front has advanced on the map", "worldwide market shares" are the yardstick (Luttwak 1993, 34). According to Luttwak, the geo-strategic situation at the end of the twentieth century has no historical precedent, in an era in which "both military power and classic diplomacy have lost their traditional importance in the central arena of world affairs" (Luttwak 1993, 35–36). In the geo-economics glossary, each standard business and economic policy or measure could be read in a strategic key, a reading sometimes pushed to extremes: the equivalent of firepower is investment capital provided or guided by the state; the equivalent of weapon innovation is product development subsidized by the state; market penetration supported by the state replaces military bases and garrisons; tariffs to protect domestic industry are the equivalent of the defended frontiers and fortified lines of war, while hidden trade barriers are the geo-economic equivalent of the ambush.

Besides the use of extreme and sometimes overstated analogies to convey the move away from standard commercial competition, one can also find in Luttwak's work a set of soberer explanations for the origins of geo-economic behavior and predicament. The first explanation is structural and functional, and lays in the very nature of the modern state: At a deeper level, geo-economics is a facet of primal rivalry expressed in the natural territorial and adversarial character of states. States tend to act geo-economically simply because of what they are: centers of power that exist in a continued condition of rivalry and competition. Their very identity is given by their intrinsic antagonistic nature. In spite of all the other functions that states have developed, as providers of public goods and of social and administrative services, their historical function as power centers and providers of security has not disappeared. However, while in the past rivalries have been expressed mainly in military terms, today they are expressed in economic ones.

In other words, states inertially apply the logic of conflict to a new situation of unprecedented peacefulness and war avoidance. Nevertheless, it would be a mistake to reify states: at micro-level, their dynamics is determined by their constituent social actors and institutions. In order for a state to be willing or able to participate efficiently in the geo-economic game, it needs a specific background: "Just as there is no successful warfare without effective armed forces, so there can be no successful geo-economic action without ambitious industrialists and effective economic bureaucrats" (Luttwak 1999, 135). In this respect, the geo-economics predicament could also be seen as an outcome of bureaucratic dynamics and aspirations. The geo-economic behavior of states is shaped by their political and bureaucratic systems. The bureaucratic and political impulses to find new geo-economic roles vary greatly from country to country. Therefore, the very nature of these systems determines the scope, intensity and direction of their geo-economic behavior. Geo-economics is a tempting option and "by embracing it, state bureaucrats can assert their authority anew, not in the name of strategy and security this time, but rather to protect 'vital economic interests' by geo-economic defenses, and geo-economic offensives, geo-economic diplomacy and geo-economic intelligence" (Luttwak 1999, 135).

To sum up, the explanation of the sources of the geo-economic predicament and behavior is an eclectic combination of realism and structuralism: Given the nature of the state, the nature of the international system, and human nature, there is no surprise that in the particular historical circumstances at the beginning of the twenty-first century, a specific type of behavior and a specific way of approaching strategic issues emerged in the international system. A profitable approach to the problem is to see Bremmer as describing the structural and operational dimension of the "new reality" while Luttwak focuses more on its strategic rationale and its sociological basis. In conjunction, they offer a pretty clear description of the main facets of the phenomenon of interest. The emerging image is that of an amorphous relationship between state and economy, a relationship that is interventionist and constantly changing based on "pragmatic" reasons, leading to various forms of regulations and redistribution, and a relationship in which state actions are driven by ambitious elites, motivated at least in theory by national interest strategic reasons. This relationship seems to be generating a special form of capitalism. But how special is it? Is it implying a new system, a model having certain institutional features and operating characteristics? We may focus on and discuss one or another facet or policy, related to the cases of relevance but do we really understand the nature of the system they are bearing? Are we talking about a new model or system announcing a new reality of global economic affairs or merely about different cases of an old model?

4 State capitalism through the standard comparative economic systems criteria framework

One of the most promising strategies for mapping the characteristics of state capitalism more precisely and for determining its resemblances with other systems is to simply follow a typical comparative economic systems criteria framework. There are several standard sources of comparative economic systems taxonomies in the literature, each of them developing around the dyad ownership-allocation mechanisms (Wiles 1977; Bornstein 1994; Gregory and Stuart 1999; Berliner 1999; Pryor 2005). However, we are going to focus mainly on the framework developed by Holesovsky (1977) because it remains probably the most comprehensive and nuanced attempt ever made in the field, an attempt that also has the additional benefit that it includes an explicit discussion of state capitalism. We are combining into a single framework his ownership classification criteria and part of his allocation modes criteria, namely the capitalist allocation modes. (Taking into consideration all possible allocation modes is obviously not necessary for the purpose of our paper.) At the same time, the framework is adjusted in three respects, detailed in the "Appendix".

These criteria are useful not just for understanding the details of one economic model, such as state capitalism, but also, importantly, for understanding the resemblances and differences between different systems. The resulting set is in fact a tool-kit for converting into clearer concepts intuitive ideas about these differences. Using this classification framework (summarized in Table 1), one can identify, following Holesovsky, several basic models for the special organization of economic systems, which are useful for understanding real world cases. One of them is of special interest to us: state capitalism. However, it is worth noting that, like most scholars of his generation, Holesovsky (in his otherwise rather sophisticated taxonomy) did not explicitly consider the possibility that when building models some of the basic criteria can also be connected by 'or' (logical inclusive or) rather than solely by 'and' (Ragin 1987, 1994; Gerring 2001; Goertz 2005). In brief, to deal with the challenge of identifying the nature of state capitalism, we are applying the contemporary methodology to improve upon one of the most elaborated classification frameworks produced by classical comparative economic systems literature, correcting some minor errors in definitions and presenting them in a more rigorous fashion.

Table 1 Classification criteria of economic systems by type of ownership and capitalist modes of allocation (adapted from Holesovsky 1977, chapters 3 and 4)

A. *Function of the property rights system*	E. *Relationship between labor and capital owners*
1. Economic efficiency	1. Labor owns the means of production
2. Social justice	2. Free contractual relationships (wage labor)
3. Rent-seeking by domestic interest groups	3. Serfdom: labor is granted use rights of some means of production (land) and has to pay tribute to owner, in money or in kind
4. International political goals (power, national interest)	4. Slavery: labor is owned as just another form of means of production
B. *Property of means of production (capital)*	F. *Modes of capitalist allocation, types of government interventions*
1. Individual property	1. Free market
2. Self-selected associated groups (family, corporations, voluntary cooperatives) property	2. Redistributive interventionism (regulations, subsidies and tax credits)
3. Communal property (tribes, villages)	3. Monopoly grants
4. State property	4. State enterprises
C. *Method of control of property*	5. Central planning (controlling production and distribution)
1. Direct control by owners	
2. By delegation (management)	
D. *Mobility of labor*	
1. Free	
2. Constrained	

Following Holesovsky and using the classification criteria in Table 1, we can explore, while mapping out more rigorously, the space of possible combinations defined by these criteria. We should note that real life cases are *superpositions* of those clusters of features. As we shall see shortly, coding is always a challenge as one has to decide which feature is the strongest and most salient one, considering that it is often that case that all features are present. Hence, it is fair to say that one can roughly identify a real system using one of these combinatorial models only in the sense that it is that combination which *predominates* and is the most salient. Yet, in the end, saliency remains a matter of interpretation and the entire discussion remains a matter of methodological dispute. For our discussion, the bottom-line is that, based on this approach, we may tentatively suggest definitions such as:

Feudalism = A3 & (B1 & B3) & C1 & D2 & E3 & (F2 & F3)
(Utopic) Communism = (A1 or A2) & (B3 or B4) & (C1 or C2) & D1 & E1 & (F4 & F5)
Market Capitalism = A1 & (B1 or B2) & (C1 or C2) & D1 & (E1 or E2) & (F1 & F2 & F3)
Crony Capitalism = A3 & (B1 or B2) & (C1 or C2) & D1 & (E1 or E2) & (F1 & F2 & F3)
Real Socialism = (A1 or A3 or A4) & (B1 & B4) & C2 & D1 & E2 & (F1 & F2 & F3 & F4)
State Capitalism = (A1 or A3 or A4) & ((B1 or B2) & B4) & C2 & D1 & E2 & (F1 & F2 & F3 & F4)

Setting aside the otherwise debatable issue of coding (and interpretation), we have managed to identify how a basic definition of state capitalism would look like within the classic comparative economic systems framework. State capitalism emerges in this view as a system of maximum flexibility in the functions of the property rights structure, modes of allocation and intervention, in which the state is a dominant force in owning capital, and with a system of wage labor that is free to engage in contractual relationships on a market that escapes central planning. Whether this result is satisfactory or not, fact is that this is pretty much all that one can get by using this approach, although it is still debatable whether one may reach a somewhat more illuminating result by using a different set of criteria.

Once we have reached this point, we can state two further observations. The first is that the combinatorial approach may lead to results that either diverge from common language usage or are counter-intuitive. A pioneer of this approach, Holesovsky explicitly addressed the "gap" between (or even "incompatibility" of) the common usage of terms like "socialism" and "capitalism" with concepts as developed by the combinatorial approach. For instance, he noted that what we usually call "real life socialism" or "Soviet socialism" (as opposed to the idealized, ideological blueprint) seems to be, in the light of this reconstruction, nothing else than an instance of "state capitalism". "This discrepancy," he wrote, "is regrettable, but it is the necessary price one must pay if one prefers analytic precision to helter-skelter tagging. The price consists in mustering the courage of appearing out of step with the rest of the world. However, if the eel calls itself a snake and the whale a fish, and everyone echoed them without protest—would that be a reason to go along?" (Holesovsky 1977, 59)

That is to say, the combinatorial approach promises to make more sense and to describe in a rigorous fashion the large panoply of existing labels for various economic systems, labels that otherwise correspond only to half-thought-out concepts. However, once we identify the models that result from the combinatorial enterprise with existing labels, in the best possible way, we are bound to encounter some counterintuitive consequences. The alternative would be just to keep the discussion extremely vague and subjective. In the case of state capitalism, the conclusion is clear: a close reading of the combinations and coding in question leads to the observation that the structural resemblance between it and real life socialism is noteworthy. The two seem to be related, or at least to be part of the same "family". It is important for our current purposes to note that describing real socialism as a type of heavily distorted capitalism, rather than of central planning, also fits the thesis of the Imperial Germany's war economy as a model for the Soviet economy (Spulber 2003) or the rent-seeking model of real socialism (Boettke and Anderson 1997), an observation of some relevance for our further argument.

The second observation is concerned with the operationalization problem that comes with such definitions and with the ability to draw relevant consequences from applying the classification to real cases. As we already mentioned, many (if not most) real cases usually contain *all* the features from Table 1 in different proportions; they are superpositions of the configurational "models". As such, the framework can be used to get some interesting clues about the nature, conditions and relationships between different systems, but, in our case, no big insight about truly special features of the phenomenon of state capitalism emerges. One may say that this is because of the features we have selected to build the model. But this is precisely the point: in such standard comparative economic systems frameworks, "state capitalism" does not emerge that distinct from other models such as "real socialism". Using the standard features of the comparative economics approach, one may imagine a combination of features that may be called "state capitalism" but that combination doesn't look as special and as new as authors like Bremmer claim. Indeed most of those combinations of features apply intriguingly well to some structural features of "real life socialism". That is in itself an interesting insight but also a signal that we need to try a different approach.

5 Mercantilism and state capitalism

We have seen from the very beginning that the shadow of old mercantilism looms large over this entire discussion. Both Bremmer and Luttwak recognize that "state capitalism" may be easily conflated with "mercantilism" but both of them protest at such a prospect. Their protests notwithstanding, our strategy is to simply turn now to mercantilism, as a natural proximity notion, and engage in a closer comparative analysis of the nature of mercantilism and state capitalism.

Once engaged in this exercise, the first thing that we encounter is the observation that, in fact, there are two descriptions of mercantilism in the literature. The first is the more or less standard account which emphasizes the relationship and trade-off between the political goals and the economic goals of the (nascent modern) state, power versus plenty. It assumes that, under mercantilism, state power was the systemic goal, that the economic goals were mostly subdued and used as instruments of power or at least that power and wealth (defined in bullion and restrictive financial-monetary terms) were equally combined in a systemic strategy. Also it claims that many of the details of the mercantilist economic system stemmed from the flawed understanding of economics at the time. Vinge (1948) offers a good synthesis of this interpretation of mercantilism:

> [M]ercantilists, whatever the period, country, or status of the particular individual, would have subscribed to all of the following propositions: (1) wealth is an absolutely essential means to power, whether for security or for aggression; (2) power is essential or valuable as a means to the acquisition or retention of wealth; (3) wealth and power are each proper ultimate ends of national policy; (4) there is long-run harmony between these ends, although in particular circumstances it may be necessary for a time to make economic sacrifices in the interest of military security and therefore also of long-run prosperity.

This description is indeed convergent with the Bremmer-Luttwak perspective on state capitalism. It is fair to say that all authors that discuss the phenomenon in question either assume or explicitly present the thesis that decision-makers in state capitalist systems also share such beliefs. The narrative goes like this: The former communist elites in Russia or China have realized that the market generates more wealth and it is thus a prerequisite of their power. In their view, the market can be allowed to expand only as far as it does not start infringing upon their interests; hence, the preservation of state-run enterprises and of strong regulatory constraints. Those elites try to control the system by micromanaging the "power vs. plenty" equation in ways that sometimes defy the efficiency and welfare properties of free markets.

All of the above may be correct. However, it is not at all clear why and how, once applied in practice, such beliefs or "operational codes" (irrespective of whether one calls them "mercantilist" or not) may lead to a system that is structurally different from old mercantilism. The fact that "state capitalism" uses SWFs or national oil corporations as instruments may be a novelty but that novelty is not sufficient to lead us to the conclusion that a new form of economic system, defined precisely by their presence, has emerged. One can of course decide to define novelty in terms of such "instrumental" criteria, but, in the end, that is just a semantic solution. The proponents of the idea of "systemic novelty" have to present a comprehensive explanation of the distinctiveness they claim. Until then, it is more realistic and sensible to conjecture that "state capitalism" is more or less a contemporary variation on mercantilist themes.

We may now turn to the alternative view, the rent-seeking model of mercantilism (Baysinger et al. 1980; Ekelund and Tollison 1981). This view emphasizes not the grand systemic goals, as espoused by key decision-makers or advocates of the system, but the individualist strategies of various actors in various positions of power and authority, as well as the social, political and economic implications of these individualist strategies. The goals and belief systems of actors, the ideology of state's systemic goals and consequently the "state-building strategy", assumed by many authors to be intrinsic to mercantilism, are all questioned. The key question about mercantilism becomes: to what extent it is in fact mostly one of the many possible society-level rent-seeking arrangements? The question is relevant for our purposes. If the two look so strikingly related, it is natural to ask next to what extent what defines one so well may also define the other equally well.

Let us take now a closer look to this rent-seeking model of mercantilism. In their path-breaking work, Ekelund & Tollison demonstrated three things: (1) The actions of seventeenth century mercantilist authorities in Britain and France make much more sense if we're considering that they have been mainly interested in furthering their narrow self-interest (in the context of lacking the technical ability to gather taxes efficiently, an ability specific to modern bureaucracies). (2) Those authorities, rather than being economically ignorant, have actually been quite aware of the actual economic effects of various policies (for example they rejected the use of granting monopoly rights, and maintained instead a competitive market, when they themselves were the buyers [Ekelund and Tollison 1981, 99]). (3) As a result of rent-seeking, the system was suboptimal and created large opportunities for corruption, which decreased its performance even more. Hence, the standard account of mercantilism, emphasizing the presumed doctrine of a sophisticated interplay between plenty and power at the time, is probably less accurate than the rent-seeking model according to which the function of the mercantilist arrangements has been to mainly protect the interests of domestic special groups.

The lesson that one draws from Ekelund & Tollison is to be skeptical of grand systemic claims. In this respect, it is interesting to note that the standard historical perspective on mercantilism used to emphasize the same ideas that are now assigned to, say, the Chinese authorities. And yet, as Ekelund & Tollison have shown, at least in the case of classical mercantilism, when the temptation of mere personal gain conflicts with such presumed higher national goals, the special interest hypothesis ends up having more explanatory power. In brief, basic intuition, comparison and analogy lead to the idea that state capitalism and mercantilism are at least strongly related if not structurally identical. The operational challenge is therefore clear: Do we have any evidence supporting the conjecture that contemporary "state capitalism" evades the logic of rent-seeking?

We now see more precisely what are the stakes of our argument: The question about the nature of the state capitalist system has a lot to do with the question of whether factors such as "national interests" and "international power games", as operational codes of a rent-seeking elite, have more than a mere rhetorical leverage. The questions are: What is the real driver of the system? What are the forces that lead to its institutional arrangements and logic of motion? What is the true weight carried by beliefs, values and norms in shaping the actions of current political actors? What can and what cannot be explained as mere rent-seeking behavior? Too little research has been done at this point in this respect to venture a definitive answer, but the pivotal issues have been identified and put on the table. In a sense thus, Luttwak's intuition has been correct: A lot of things in this discussion hinge on the psychology, beliefs, attitudes, incentives and strategies of elites, more precisely bureaucratic and state elites. We have come thus to a point in which we are able to identify one clear criterion of demarcation in defining the nature of state capitalism in an operational way. Is it a rent-seeking system or not? Or in what measure the rent-seeking instinct is overcome and neutralized by national and systemic operational codes and beliefs acting as strategic and structural drivers?

All of the above have significant implications for our discussion about the alleged novelty of state capitalism. It seems that the unavoidable comparison with mercantilism leads (irrespective of how we see mercantilism) to the conclusion that it is very difficult to maintain the idea that what is called "state capitalism" brings with it a significant level of novelty. The tentative test of the mercantilism comparison does not say that it is *impossible* to claim that state capitalism is structurally unique and distinctive enough to justify the claims of novelty. However, it says that a closer look in the light of any of the two models of mercantilism curbs the enthusiasm about these claims of novelty. It is the task of the proponents of the novelty thesis to offer the arguments and the evidence of distinctiveness. That is a discussion that remains open. For now, the conjecture that what is called "state capitalism" in contemporary public discussion is a version of (neo)mercantilism seems rather robust.

Once we have reached this point, the implications are rather interesting: It seems plausible that rent-seeking, as an economic and political phenomenon, is a basic building block for understanding as diverse systems as mercantilism, real socialism, and state capitalism. And if so, what are the implications for the way we understand the dynamics, performance and success of state capitalism? The rest of this article will look at some of those implications of the rent-seeking conjecture. What follows from the conjecture that state capitalism is indeed just yet another form of a rent-seeking system?

6 Rent-seeking systems: similarities and analogies

In the absence of more in-depth studies on these lines (and speaking anyway from an ex-ante position), it seems rather plausible that state capitalism may have a similar dynamics to that of any other rent-seeking societies. Incentives, structure and even belief systems align in such a way that they make very plausible scenarios similar to other cases of rent-seeking based systems.

The literature presents rent-seeking as a relationship between three categories of actors: producers, consumers, and the government. On a competitive market, producers sell to consumers at a price P. By contrast, in a mercantilist-like system, the government intervenes, by means of various possible market regulations (such as granting monopoly rights, licensing or tariffs) favoring certain producers (and usually restricting competition and thus supply), in order to increase the price from P to R. This increase in price represents a transfer from consumers to the favored producers (Tullock 1967; Buchanan 1980). However, in order to obtain the regulatory advantages from government, the producers must expend a certain amount of resources (for instance on coordinating, organizing, lobbying, monitoring)—rent-seeking is not free. Moreover, the government must expend a certain amount of resources in order to actually enforce the market regulations, but, in so doing, it is creating additional (potential or actual) costs for itself.

For example, in the context of analyzing 1600–1750 mercantilism, Ekelund & Tollison note that even an absolute king has to consider such costs: “to the extent that there is competition for the position of royal authority, the monarchy must expend resources to resist bids to take over the royal apparatus. As part of the cost-minimization strategy for staying in power, it may be efficient for the king to take consumer interests into account to some degree” (Ekelund and Tollison 1981, 24). Especially in a modern context, other kinds of costs can also be considered, for example the government may be undermining to a certain extent its tax base, due to the fact that consumers are left poorer and some producers are eliminated from the market, and thus the amount of taxes collected will be lower. The people in government also have to take into consideration the possible cost of losing power and the probability of losing power. In democracies this happens due to not being reelected, while in non-democratic systems it represents the risk of revolution or of a coup d’état. In democracies the cost spans from loses of additional potential gains (had they been reelected) all the way to the possibility of being charged and convicted in corruption cases, while in non-democratic systems the cost of losing power often rises all the way to death. The key idea of the rent-seeking model is that the rent-seeking activity of producers will happen if and only if the expected gains from regulation are larger than the expected cost of rent-seeking, and, similarly, the government’s willingness to grant the regulatory advantage to certain producers happens if and only if its expected gains exceed its expected costs.[2] But the bottom line is a systematic transfer of resources to some privileged interest via state’s intervention and that leads to a systemic loss of welfare or performance.

Importantly, the rent-seeking model is able to identify the effects of various institutional frameworks, as these frameworks are the basic structures of transfer and redistribution. On one hand, the amount of social welfare lost due to rent-seeking can be roughly estimated (Tullock 1967, 1971, 1974; Browning 1974; Posner 1975; Cowling and Mueller 1978). On the other hand, the extent to which a particular system tends to be affected by rent-seeking can be assessed, as well as the extent to which it tends to gradually drift toward a more and more mercantilist state of affairs (Tullock 1965; Olson 1982). The country data in Table 2 is relevant precisely for this type of analysis: First of all, states with higher levels of tax evasion are more likely to appeal to more heavy-handed interventions on the market (such as selling monopoly rights, either openly as in the classic seventeenth century mercantilist states or covertly via corruption), and also are more likely to search for

[2] Rent-seeking is thus predicted to occur if and only if *both* of those cost-and-benefits conditions hold. The social welfare loss due to rent-seeking is a lot more than just the deadweight loss due to the increase in price from P to R (Tullock 1967). Besides all the forgone productive activities of the producers that have been eliminated from the market by the regulations, the social cost also includes all the forgone productive activities of the producers that would have involved an efficient use of the resources, but which instead have been employed in lobbying. Last but not least, it includes all the forgone productive government activities, which could have involved the use of resources for providing certain public goods, but instead have involved the use of resources merely for enforcing the privileging regulations and for assuring that they don’t lose power.

Table 2 Countries with state capitalism tendencies (based on Bremmer 2009)

Country	Major state capitalist element	Shadow economy[a]	Control of Corruption[b]
Abu Dhabi	*Oil, SWF*	25.9	0.93
Angola	*State enterprise* (diamonds)	46.6	−1.26
Azerbaijan	*Oil, State enterprise* (electricity)	58.0	−1.02
Brazil	*Oil*, *National champions* (mining)	39.0	−0.05
China	*State enterprise* (aluminum, electricity, telecommunications, airlines), *National champions* (aircraft, telecommunications, computers), *SWF*	12.7	−0.48
Dubai	*Oil, SWF*	25.9	0.93
India	*State enterprise* (railway), *National champions* (cars, steel, chemicals)	22.2	−0.36
Iran	*Oil*	18.3	−0.45
Kazakhstan	*State enterprise* (uranium)	41.1	−0.98
Kuwait	*Oil*, *SWF*	19.3	0.83
Libya	*Oil, SWF*	33.7	−0.79
Malaysia	*Oil*	30.9	0.34
Morocco	*State enterprise* (phosphates)	34.9	−0.13
Norway	*SWF*	18.7	2.03
Qatar	*Oil, SWF*	18.8	0.91
Russia	*Oil*, *State enterprise* (fixes-line-telephone, arms), *National champions* (mining, steel), *SWF*	43.8	−0.83
Saudi Arabia	*Oil, SWF*	18.1	0.10
South Korea	*SWF*	26.8	0.43
Venezuela	*Oil*	33.8	−1.01
Vietnam	*SWF*	15.1	−0.73

[a] Percent of GDP, average over the 1999–2007 period (Schneider et al. 2010)

[b] Control of Corruption Index, average over the 1999–2007 period, −2.5 (Very poor performance) to +2.5 (Excellent performance) (Kaufmann et al. 2010; World Bank 2010)

alternative sources of income, other than taxation, which is why state capitalist methods (SWFs, state owned enterprises and state-granted privileges) can look so appealing to governments. Secondly, states with higher levels of corruption are more likely to be rent-seeking societies.

We could thus see how the rent-seeking perspective becomes a heuristic device that allows us to see state capitalism as part of a class or family of economic systems. Authors like Gordon Tullock and Anne Krueger introduced in this respect the notion of "rent-seeking society" (Krueger 1974; Tullock 2005; Buchanan et al. 1980). Underlying similarities between systems that are apparently radically different seem to emerge, first as conjectures, then as working hypotheses. Analyses and insights relevant for one type of society or system may be extended to others. This allows us to extrapolate to state capitalism what we already know about other systems.

Along this line, given that some of the most important state capitalist systems (Russia and China) have been socialist states, an interesting and clearly relevant insight, which is both analytical and genealogical, is provided by Boettke & Anderson's rent-seeking perspective on "real socialism". Converging with the insights we have gained earlier about the structural similarities between real life socialism and state capitalism, Boettke & Anderson have analyzed the Soviet political economy as a modern mercantilist system (Boettke and Anderson 1997; Boettke 2001). According to their analysis, the main differences between real socialism and old mercantilist France are that (1) in the Soviet Union property rights were less secure (they were just usufruct rights dependent of one's position within the Soviet bureaucratic hierarchy), (2) the control of capital was mainly conducted by delegation rather than directly, (3) labor had more mobility, and (4) it was a wage labor system (although not a free market one). This is close, but not identical, to Holesovsky's picture of "real socialism", "the whale that calls itself a fish". The main difference is that Holesovsky takes for granted the assumption that real socialism had state ownership of the means of production, while Boettke & Anderson do not. The latter emphasize that although *on paper* means of production were owned by the state and centrally managed, *in practice* the system worked via a type of market mediated by informal connections. It was thus a market with very high transaction costs, but a market nonetheless. As Boettke & Anderson put it, "Soviet-style central planning system was in actuality a mechanism which functioned to protect the value of mercantilist monopoly rights". The parallels to the mercantilist system run deep:

> A mercantilist system of monopoly rights created for the purpose of raising revenue is only effective to the extent that monopolistic barriers to entry are successful. … The preservation of the value of this revenue source requires the state to monitor and enforce the monopolistic economic structure. Central planning was the mechanism to accomplish this end in the Soviet-type system. Planned output targets were not floors, but ceilings. That is, planned output targets functioned like cartel output quotas.

The discussion is important because it allows us to see how the structures and mechanisms of rent-seeking operate in relatively similar ways despite the fact that, at first glance, the two systems seems so far apart. The two systems are united by the logic and mechanics of rent-seeking. It is hence plausible that we could make a further step and extend the approach to state capitalism. This is indeed a conjecture that requires further investigation.

For now, we can see that, in the light of this conjecture, the main difference between Holesovsky's and Boettke & Anderson's "real socialism" and Bremmer's "state capitalism" is that, unlike real socialism, state capitalism preserves the free market prices for consumer goods, while the active involvement of the state amounts to the elimination (or to a serious distortion) of certain markets for the means of production—although not all. It is not at all clear why such differences should be more important in analyzing these systems than the similarity of the rent-seeking logic that unites them. This is a line of investigation that is worth pursuing in parallel with an empirical analysis of various cases of state capitalism. One of the problems of the current state of the discussion is that not enough in-depth case studies of economies "suspected" of embodying the state capitalism model have been made, especially not from such a state capitalist framework perspective. Setting aside this "to do" agenda, for the purposes of the current discussion it is important to note that the conjecture that state capitalism has built-in structural features that are common to both old mercantilism and real socialism allows us to build up some hypotheses about the nature and future dynamics of state capitalism, as implications of the rent-seeking model.

7 Rent-seeking systems: some implications

It has already been noted that, when compared to relative free markets, state capitalism introduces "massive inefficiencies into global markets" as it "adds costs and inefficiencies to production by injecting politics, and often high-level corruption, into the workings of markets" (Bremmer 2009, 42).

This being said, there are degrees of rent-seeking and interventionism and state capitalism seems like an economic improvement in terms of efficiency over the Cold War situation, when large portions of the world were under the highly inefficient "socialist" system. Hence, when we consider the transition from socialism to state capitalism, one may well see a transition towards a more efficient economic system (Aslund 2002, 2007). However, the situation is mixed. On one hand, these linkages of state capitalist systems to the global market create important constraints for their governments, as they have to consider the prices as they are set on the global market as well as, in some measure, the existing rules of the game. On the other hand, the connection of those state capitalist systems to the Western world, introduces various forms of previously inexistent inefficiencies in the latter's economies. Nonetheless, from such a purely economic perspective the assessment may appear to be overall positive. It seems that we have witnessed a transition from the Cold War suboptimal situation to somewhat better suboptimal situation.

We can also predict that this structural rent-seeking has a debilitating effect on the system. A system based on arrangements that generate ongoing social welfare losses cannot be robust on the long run. There are good reasons to believe that the system of state capitalism, although probably more efficient than full-blown real socialism due to its commercial interconnectedness with genuine market systems, is still suffering from the same kind of fundamental problems as real-life socialism. This is not just theory. As Aslund (2007, 261–2) notes of the natural experiment offered by Russian state-owned companies, there is a huge difference in terms of performance between private ("oligarchic") companies and state companies: "Big state enterprises tend to be monopolies or quasi-monopolies, whereas the oligarchic corporations typically indulge in vicious competition rather than price fixing." For instance, state enterprises, such as Gazprom and Rosneft, "patently fail to boost production organically, in which private Russian oil, coal and metallurgical companies have excelled." On one hand, "Gazprom has succeeded in maintaining a negative cash flow regardless of how high gas prices have surged". On the other hand, "the private oil and coal companies are flooded with profits despite much more severe taxation". In the aftermath of the financial crash of 1998, "the Russian oligarchs swiftly streamlined their business structures, and mergers and acquisitions caught on". At the same time, "[s]tate-dominated companies such as Gazprom, by contrast, not only resisted selling noncore assets but bought more". Aslund concludes that "[t]he oligarchic corporations excelled in buying international services of all kinds, whereas the state companies resisted doing so until it had become standard. In short, the oligarchic companies have proved highly innovative in management, whereas the state enterprises are the last acceptors of any novelty." (Aslund 2007, 262) Similar large scale inefficiencies are also the hallmark of the Chinese state investments.

The Russian story is also important for the question of whether state capitalism involves "rent-seeking all the way down", or, like in the traditional historical account of mercantilism, "national interest" and international power considerations also play a role. Although Russia has passed through an "oligarchic" stage in the 1990s (Aslund 2007, chapter 10), which looked like a very clear instance of the rent-seeking model, it has since once again moved in a more ambitious direction under Vladimir Putin: "Now, oligarchs are extorted by the Kremlin rather than being entitled to buy its services. The problem with Russia is rather that the oligarchs have proved too weak to resist the large-scale renationalization undertaken since 2003 in Russia by President Vladimir Putin." (Aslund 2007, 265) The clear-cut rent-seeking structure of Russian state capitalism seems thus to be undermined to a certain extent by that fact that "the Russian oligarchs are hardly strong enough to safeguard their property rights when the ruler turns against them." In this sense, the Russian state hasn't moved that far from the real-socialist system described by Boettke and Anderson (1997). To what extent is this true of other state capitalist systems as well? We can note that China has bigger international ambitions as well (Deng and Moore 2004; He 2007; Sharma 2009; Clegg 2009) and similar international ambitions are present in many of the other state capitalist countries identified by Bremmer (Table 2), countries which have not all been part of the Soviet bloc, particularly the oil-producing Middle-Eastern countries. As Bremmer (2009, 44) notes, "[f]rom the perspective of OPEC'S members, the [1973 oil] crisis put an end to decades of political and economic impotence and the colonial era itself". These ideological considerations need to be taken into consideration if one is to form a complete picture of the phenomenon of state capitalism, but until more in-depth research is done it is not entirely clear how these ideological elements interact with the purely rent-seeking elements.

That being said, the perspective according to which rent-seeking has a lot more importance in the overall functioning of the system, being its pivot, leads to the conclusion that, in the end, state capitalism (despite its emphasis on various "higher" goals) may not actually be very stable over the long turn and it may drift into mere crony capitalism. To some extent, this is already seen in China where, in the name of economic efficiency, higher autonomy was given to local structures, which, in turn, has led to rampant rent-seeking and corruption (as it is less costly to bribe local authorities than central authorities) and to a quasi-death of the unifying ideology. The Chinese government has responded to this "problem" by an attempt to ramp up nationalism as a unifying force (Zheng 1999; Calahan 2004; Hughes

2006; Zhang and Zheng 2006). In countries like China and Russia it is found that corruption and the size of the shadow economy are complements rather than substitutes (Dreher and Schneider 2010).

This is highly relevant to our problem, given the importance of the "close ties binding together those who govern a country and those who run its enterprises" (Bremmer 2009, 42–43) for the functioning of the state capitalist system. In the context of a society in which the rule of law is weak, rent-seeking mechanisms invites corruption. Table 2 summarizes the size of the shadow economy and corruption in some countries with strong state capitalist tendencies. So sooner or later, as it happened in real life socialism of classic mercantilism, rent-seeking and corruption go hand in hand. The consequences for the overall performance of the system and its resilience and development are rather clear. Thus, the conjecture that a system whose structure of incentives creates massive rent-seeking opportunities for its political elites and bureaucracy will incur sooner or later a dynamics familiar to us from the cases of other rent-seeking systems is rather compelling.

8 Conclusion

This article has tried to investigate the idea advanced by many authors according to whom we are witnessing the emergence of a new form of capitalism—state capitalism. One tentative conclusion is that, although a noteworthy economic and political development, the phenomenon labeled "state capitalism" doesn't seem to represent a true novelty in terms of basic structural economic system organization. The references to mercantilism seem to be warranted. Even more important, when mercantilism is seen as a paradigmatic example of a rent-seeking society, the relevance of the similitude is consequential. The following conjecture seems to be robust and potentially productive: whatever its ideology, PR, policies and conjunctural operations, state capitalism can be more profoundly and better understood in its structure and dynamics if we model it as a rent-seeking society, rather than as any other alternative model. Based on this conjecture, one may predict that, despite its apparent clout today, state capitalism will have the same fate as that of other past rent-seeking systems, such as real-life socialism and mercantilism.

It would be tempting to end the discussion on this note. Yet, the notion that state capitalism is doomed to failure is too simplistic in its optimism. Yes, such a system has built-in structural inefficiencies. However, *these inefficiencies are relative, not absolute*. The performance and survival of state capitalism depends on the performance and survival of competing systems. In the past, real socialism and mercantilism were outcompeted by capitalist systems that used more efficiently the market forces, via more effective governance arrangements. So, in the end, the discussion about the performance and future of state capitalism is a discussion about the performance and future of market capitalism. One should be more cautious about embracing the optimistic "state capitalism is doomed to failure" scenario because one could easily imagine a scenario in which free-market economies themselves move towards state capitalism, rather than the Western world maintaining its relative free markets while the state capitalist systems are gradually moving closer to the free market model.

Thus, the future of state capitalism ultimately depends on whether a viable alternative to it in terms of a genuinely free market system is provided, an alternative that, as Bremmer put it, involves “leading by example in promoting free trade, foreign investment, transparency, and open markets, in order to ensure that the free market remains the most powerful and durable alternative to state capitalism” (Bremmer 2009, 55). In the end, it may be the case that the key question is less about what happens in the existing state capitalist systems, and more about whether Western economies themselves will drift in the state capitalist direction.

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Appendix: Adjustments of the standard comparative economic systems framework

The first problem is that the initial classification scheme as advanced by Holesovsky (1977) doesn’t make explicit the “power vs. plenty” criterion, as a separate variable in the classification. However, this criterion is not only used in the classification, but it actually plays a very important part in it. Hence, we amend the “function of the property rights system” dimension of his scheme, identifying four possible functions: economic efficiency, social justice, rent-seeking by domestic interest groups, international political goals (power, national interest). It is also worth emphasizing that these criteria are not mutually exclusive, and when more than one of them is present, it means that there is a trade-off between them.

A second problem is that the initial scheme makes too much of the separation between labor and the owners of capital. The entire body of modern economic theory, from standard macroeconomic growth models (Romer 2011) all the way to Austrian economics (Mises 1946), sees the supposed separation between a class of people who only have their labor and another, entirely distinct, class of people who invest and who own capital, as a mistake. Fortunately, this error is easier to fix than one might think at first glance. Holesovsky uses the concept of “wage labor” to mean *two simultaneous things*, namely the fact that there exists a free contractual relationship between labor and employers (owners of capital) *and* the fact that labor owns no capital and does not invest. We are using the term to mean *only the first part*. As such, the amended classification becomes fully functional and relevant, because it allows for the existence of wage labor that, at the same time, invests and owns capital (in the initial framework, this category was deemed impossible).

Finally, a third amendment has to be made to the way older generations of comparativists have built their definitions. This is necessary because, like most scholars of his generation, Holesovsky (in his otherwise rather sophisticated taxonomy) did not explicitly consider the possibility that, when building models, some of the basic criteria can also be connected by ‘or’ (logical inclusive or) rather than solely by 'and'. We are hence applying the more elaborated approach to the problem of classification, inspired by the more recent work done by authors such as Ragin (1987, 1994), Gerring (2001) and Goertz (2005).

Despite these adjustments, the definitions in the main text are retaining the spirit and letter of classical comparative economic systems in their essential lines, and draw their justification from that literature. In fact, some of the alternatives connected here by 'or' are also presented as such by Holesovsky himself in a rather confusing way which attempts, and largely fails, to put them all together in a single figure. By using Gerring-Goertz logical-combinatorial approach, we can reconstruct and present the initial classification and selected models in a much simpler and clearer fashion (the presence of 'or' marking either the possibility of a diversity of systems or the existence of a trade-off within the system).

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