# 22

# SYSTEMIC GOVERNANCE[1]

*László Csaba*

CENTRAL EUROPEAN UNIVERSITY AND CORVINUS UNIVERSITY OF BUDAPEST

The mainstream view of macroeconomics, as represented by authoritative volumes (Burda and Wyplosz, 2017; Blanchard and Summers, 2019), tends to treat fundamental changes of the macro-system to be outside the scope of macroeconomic theory and policy-making proper. This approach has cemented itself despite the momentous changes not only in Central and Eastern Europe, but also in China, Russia, and many other parts of the globe. Macroeconomics is the art of balancing between fiscal and monetary legs, and macroeconomic theory is about the combination of factors and ways of interpreting equilibria. Macroeconomics and policies based on it are about inflation and (full) employment, fiscal and monetary aggregates, exchange rates, trade, and the interaction among these. *Institution building is outside the scope of its attention,* at least for two reasons.

First, modern macroeconomics, ever since Samuelson, has not really been concerned about this issue (though in the past 15–20 years accepting that 'institutions matter' has become a platitude for most of the literature). Second, and related to the former, institution building is seen as an exceptional, one-time endeavor, which needs case-by-case consideration and adaptation to changing local conditions. As such, political economy of reforms, i.e., the art of implementing economic insights on the ground, under often hostile or ignorant political environment is seen as an area for political science and public administration, thus falling outside the scope of economic analysis. This holds also for the academic interpretation of the root causes of success and failure, be that of China's rise or Central European democratic backsliding, two issues on which libraries have been produced, and not only in the past decade.

True, that transition studies constituted a bold attempt to integrate those broader insights into economic investigation. However, even the boldest and broadest attempts (Merkel, Kollmorgen and Wagener, 2019; Kolodko, 2021) remained compartmentalized. Analyses are confined to time and space, major claims are context specific, with limited if any transferability to other cases or situations, let alone different time periods. This is exactly the opposite to how mainstream economics has evolved, with its emphasis on formal presentation, being the basic criterion for good academic quality. A mere glimpse into the recent output of top ten academic journals of RECEP rankings may suffice to those who yet need being convinced.

The present chapter is an attempt to offer an interpretative framework in which changes in economic systems may be understood and explained through a single analytical perspective. In so doing, we follow the secular trend in mainstream macroeconomics where macro-claims must be rooted in micro-insights, as expounded recently in Galbács (2020). For our subject, this requires reliance on management sciences if we address issues in real-world economic systems.

 DOI: 10.4324/9781003144366-27

*Therefore, macro for us is never the same as aggregated micro-insights.* All the less so, as the horizontal and vertical interactions between the two and the environment may and often does produce outcomes that would not follow from a simple adding up. Thus, *the systemic view diverges from the dominant trend in theory.*

While in macroeconomics the agency is usually the administration, or the central government, in management sciences it has become customary to include horizontal elements and intertwining into the analytical frame, both from the incentive and information processing perspectives. Thus, in the latter, we tend to talk mostly of *governance, rather than administration,* which stresses the hierarchical subordination among the various layers of management. Since comparative economics has long been studying the power of the ruled,[2] even over those making the plan or policy decisions, it is a legitimate extension if we apply this insight to the macroeconomic level. Systemic governance is thus the complexity of constructivist, man-made rules and the outcomes shaped by spontaneous reactions of firms, individuals, and local and foreign players in a multimillion actor game. Bagenholm et al. (2021) provided an exhaustive account of the dimensions and considerations of how this approach is being applied to assess the quality of real-world governments across the globe.

Our basic research question is the interface between human deliberations and spontaneous outcomes. The paradox, first highlighted in detail by Ludwig von Mises (1940 [1963]) would be put today in the form of the role of system design, i.e., various forms of constructivist deliberations, in shaping outcomes in different societies. Explaining *why some of the solutions do work under one setting and fail in a different one* has long been a topic of inquiry within comparative economic studies. But even in broader, global context, as Ilene Grabel (2017) demonstrated, international financial organizations, including the once infamously rigid and dogmatic IMF (International Monetary Fund), which used to be conventionally criticized for its one-size-fits-all approach, adopted a line where context specificity rules over doctrinal chastity or academic coherence. We may join her in seeing this as a forward-looking development.

In the following, *we shall counter-pose the experience of Central Europe,* with the preeminence of top-down or reverse planning approach to introducing Western type of social market economy, *with East Asia.* The latter region is best exemplified by China, with their a-theoretical, experimental approach, where a series of small steps have been following one another. Rather than adhering to a secret master plan, 'all options are kept open' when deciding over the next major step. We investigate when and which strategy is more fruitful and why so.

## 22.1 Central Europe: The laboratory for social constructivism

With the collapse of the external and later the internal Soviet Empire, the newly emancipated nations of Central Europe have emerged as fertile ground for natural experiments of 'returning to Europe', namely by establishing parliamentary democracies and social market economies of the West European type. According to the consensus view, documented in a series of books, the first decade was spent on bringing about the foundations of market and democracy. The second decade was spent on accession to the European Union (EU) and taking over incrementally its *acquis Communautaire.* The third decade by a corrective, called usually as 'illiberal democracy'. Despite the traditional differences by the country, dating back to their formation, Visegrád countries can and should be subsumed under a single model of development. Their commonalities prevail over much deeper differences from post-Soviet and post-Yugoslav states as well as from the Baltics.

This third phase was characterized not only by managing the two crises, the Great Recession of 2008–2009 and the COVID pandemic in 2020–2021, but also by the emergence of a new state-led model. While the Baltic States qualify as an outlier, being addicted to the neoliberal model, the Visegrád Countries and Croatia have changed their previous FDI-driven modernization strategies. Some analysts (Blum and Varga, 2021) baptized it as a conservative developmental state, highlighting the focus on workfare, picking winners and activist industrial policies, market protectionism, and governmental differentiation across economic subjects by size, nationality, and closeness to the governing party, all reminiscent of the practices of East Asian Tigers in the 1970s and 1980s.

It remains a subject of academic and policy controversy if, and to what degree, this characterization holds or is a caricature of actual state of affairs (as explained in Csaba, 2021). From our perspective, the evolution of the third decade is certainly deeper going and more profound, more lasting in all planes of analysis, than the ad hoc assessment of calling it a simple derailment would have it.

What we could observe has been *a prime case of how the concept of systemic governance works under real-world conditions.* None of the governments of the region has ever declared their distinctness from the EU standards, including the European Fiscal and Banking Union and its institutions, including the Single Supervisory Mechanism and the Single Resolution Mechanism. The European Stability Mechanism and the Next Generation Fund constitute further giant steps toward supranational decision-making, while these do not require – as frequently misinterpreted – the convergence of domestic economic models (more on this in Casagrande and Dallago, 2021).

What counts from our angle is that Central European countries have gradually moved toward a profoundly statist model not to meet the formal and informal criteria of the 'ever closer European Union'. On the contrary, joining the single currency would have required more rules-based fiscal and monetary arrangements, less interventionism, and weakening the developmental statist ambitions by the local governments.

If we take those ambitions, including the priority of growth promotion and sovereigntist aspirations, going way beyond the economic sphere, the mechanism of change becomes easy to follow. The governments advocated a not-so hidden agenda of state-led development, with a focus on picking winners, of retaking back control over a previously extremely transnationalized banking sector (Önder and Özerlimi, 2016) and energy economy, as well as trade and communication. As the Hungarian governing party formulated back in 2010, their ascent to power was meant to be 'more than a change of guard in government, though less of a regime change'. This formulation has proven to be a precise one.

Systemic governance in this case has not relied on projects elaborated with the involvement of international financial institutions and independent academic expert, as was the case in the 1990s. Much of the policy change has been improvised in reactions to the challenges of the day, should they have come from the EU, the global capital markets, or local politics. But overall, the changes *in toto* resulted *in much more than ad hoc adjustments,* or corrections of previous economic and political imbalances.

It would be difficult, or even in vain, to search for an overall plan of actual changes, implemented in Poland, Hungary, Slovakia, and Czechia. Analysts strongly disagree about how to assess the outcome. János Kornai (2016) spoke of a hybrid regime, Mihályi and Szelényi (2020) of a prebendal, rent-seeking state, while Magyar and Madlovics (2020) of a mafia state, where the intertwining between the party-state and the economy replicates the intimate relationships observed in South Italy and China. What all of them agree is the focus on spontaneous, ad hoc decisions, taken at the highest level, with economic consequences being though relevant, but by no means overwhelming. The personal enrichment component is demonstrable but remains insufficient for an exhaustive explanation of outcomes. The latter do reflect the broad priorities of the power holders, but owing to the horizontal aspects, feedbacks of various sorts, *they are a long way from replicating something of a carbon copy of any elaborate master plan, let alone financial calculation, or growth strategy on par with East Asia.*

Which were the empirically observable methods of changing the neoliberal model into a quasi-developmentalist-statist one? The answer is far from being simple, as *certain measures* – like nationalization or privatization, supporting monopolies or creating competition – *could serve diametrically opposite objectives,* depending on the context of the country and time.

In his broad empirical overview, Szanyi (2019a) highlights the growing *étatisme*, connections to the ruling party, ad hoc interventions, and securing monopoly positions for those favored, while crowding out non-supported foreigners and private ventures not belonging to the oligarchy among the most frequent arrangements. One of the more recent examples includes the takeover of the market for cafeteria provision, previously held by foreign companies. The dispute settlement forum of the World Bank obliged the Hungarian state to pay no less than 100 mn euros in compensation for the confiscation of foreign interests, only to be passed over to the hands of local providers.

Yet another new method cited by our sources includes nationalization, as a temporary measure. In several cases, though not exclusively in the financial sector, *establishments have been taken over by the state only for a transitory period.* Often supported by lavish injections of capital and/or debt reliefs, these ventures tended to be sold later to private owners, known to be the benefactors of the governing party.

Yet another frequently used method is to declare *an investment to be of national economic relevance. If that is the case, at the end of the day, no rules should be followed.* These rules may include considerations of competition policy, of state aid (controlled by the EU), of transparency, of accountability, or the requirement of equal treatment of market players before the courts.

Open favoritism as ongoing governmental policy in various well-known ways can thus be justified, and *no remedy for losses can be found,* either at national or international fora. The World Bank ruling cited above is thus to be taken as an exception, rather than the rule. If for no other reason, owing to the cost, the time-consuming nature, the complexity, and the regular foreign presence required for these fora to be efficacious, most players give up rather than enter a hopeless contest against those in power.

Given the growing intertwining among market and state agents, it is often *difficult to disentangle, which is the dog and which of them is the tail.* This division of roles may be changing over time, while the administration retains the right of initiative. For this reason, the top-down nature of the game is clear according to the literature we cited. Patronage, rent-seeking, regulatory capture, and the like are well-known terms to denote *various forms of political capitalism* from Latin America to East Asia.

What is straightforward from the empirical studies (Győrffy, 2021) is that the Baltics, committing themselves to 'neoliberalism', i.e., open markets and delineation of public and private spheres of the economy, have been faring better than the Central Europeans who have opted for a local edition of the conservative developmental state model. The analysis above lists a variety of scores in which the comparison works in favor of the former periphery of the Soviet Empire.

This includes not only the qualification for the single currency, which acts as a cushion against global economic disturbances, but also the qualitative indicators, as the share of IT intensive output of production, the upgrading of exports to higher echelons of the value chain, and not least results of student competences (as reflected in PISA scores), which is a forward indicator of future high-quality output. *In their case, systemic governance aimed at sustaining and deepening the free market arrangements* that emerged from the ruins of the Soviet Empire, not least owing to the total rejection of the Communist heritage as alien and backward looking.

No other post-socialist country could make such an open and final break with its Communist past, than the Baltics.

In this success story, foreign investment and foreign participation in local economic upgrading have been instrumental (cf empirics and its interpretation in the monographs of Gevorkyan, 2018 and Kolodko, 2021). This is the other side of the same coin, namely of the bottom-up component that helped to render Baltic nationalism a forward-looking force. In so doing, this helped to overcome the failures that have been inevitable in creating markets. Reviving traditions dating back to the Hanseatic League, sustaining intimate relationship to other Scandinavian countries, being active and constructive participants in both NATO and the EU *allowed the interaction of micro- and macro-processes that yielded a favorable self-reinforcing process over the past three decades.*

Even this fragmentary overview allows us to prove *both in Central Europe and in the Baltic States the process of transformation has been of top-down nature.* Changing priorities in Central Europe and, in contrast, sticking to the public choices of the early 1990s in the Baltics explain to a large degree the economic choices and, in turn, the divergent outcomes. Social constructivism did work in both country groups, though the outcomes reflect not only the diverging nature of the choices of those in power. Societal feedback was secured via regular elections, and lively investigative journalism, the use of social media by the government, as well as national and EU level court activism. This allowed for a fair degree of policy continuity in Slovakia and Czechia, and major discontinuities in Poland and Hungary.

## 22.2 China: The prime example of pragmatic bottom-up incrementalism

Being aware of the broad international academic and policy controversy over Chinese development, we cannot even aspire for presenting a concise picture of the developments in the Middle Kingdom. In the present section, we adopt a model-like approach, where China figures as a case for bottom-up forms of systemic governance dominating governmental projects, and social constructivism in general. By the time of writing, the country possesses with the largest GDP (Gross Domestic Product) globally in absolute terms, when measured in purchasing power parity, it is the largest exporting power of the globe, having overtaken Germany and the United States, is a major capital exporter and a defining power in terms of applying artificial intelligence in a number of areas.[3] Thus, China is a country under Communist rule; still, it is a far cry from the industrial museum, what the Soviet Empire used to be.

The controversy in recent years revolved about the nature of growing Chinese ambitions. Namely if and to what degree the Belt and Road Initiative and many other forms of active influencing, from capital investments in Africa to establishing large university campuses in Europe, extending the web of Confucius Institutes, and providing financial and military assistance without open political conditionality all trigger academic debates, which we shall ignore in this place. The listed developments are meant to illustrate the dynamic nature of Chinese developments and its being very unlike anything we know about the Soviet Union and Russia.

Our subject is just one dimension of Chinese development, namely the *nature of governance, which has yielded these staggering outcomes.* Chinese strategy is known to be the opposite to that of Central Europe. At the highest level of abstraction, *it is lack of the constructivist element,* especially of a preconceived end stage, which is perplexing. In turn, the *de-emphasis of institutional factors, especially of building formal institutions,* which have been the backbone of transition strategy in Central Europe, which is peculiar.

Xu (2015) has gone the farthest in underscoring the role of informal institutions in shaping the outcomes. Many other authors highlight the role of *cultural traditions and the role of the diaspora,* especially in the United States and Canada, which mold the actual, often undocumented workings of the Chinese business model, and not only in FDI-dominated areas. In short*, horizontal coordination mechanisms have been at least as relevant as the traditionally emphasized vertical ones.*

This observation does not mean the neglect of top-down policies or the disregard for the political ramifications of economic decentralization. In a country of China's size, it is unsurprising to observe the sustaining of decentral management by a small, though active central state. The limits to spontaneous change, including setting the barriers to how far economic change may trigger political democratization, have been clearly set by the Communist Party, at least since the Tienanmen Square events of June 1989.

Unlike in Central Europe, *the track of political and economic changes has been kept separate.* Likewise, while supporting experimentation with a broad range of property forms, truly private ventures tended to be kept small, or medium size at maximum, not exceeding 22–25 per cent of total national asset value. By advocating non-state property forms, Chinese policymakers mean, in most of the cases, cooperatives, municipally owned enterprises, or various forms of corporatization, as well as joint ventures (as opposed to full foreign ownership via acquisitions and FDI).

The process o*f economic change and partial liberalization has thus proceeded under governmental control.* As Gang Fang et al. (2019) explain, this was an enlightened absolutist approach, where much of the detail has been left to local managers. Meanwhile control both over macroeconomic and political processes has remained in the hands of Communist Party leadership. Growth has been fueled primarily by high factor inputs, including a 41–49 per cent rate of fixed capital formation as a share in GDP and ensuring full employment. Furthermore, as the above cited article explains, the *classical Domar effect*, i.e., impacts of restructuring employment in favor of higher productivity industries played a pivotal role.

In this process, *a particular Chinese feature emerged, reliance on trial and error.* Explicating this practice in detail and illustrating it with several empirical cases, Wendy Leutert (2021) talks about institutional innovation through iteration, which *allows for finding out the best fit without relying on a detailed master plan*. The usual way of applying this insight is that an innovation is practiced only in one or some province(s). If successful, the solution is spread nationwide, or in a growing number of provinces. As Chinese provinces are huge, both in terms of territory and population, often comparable to European states, this incrementalism allows for the coexistence of competing solutions. This – together with cultural and institutional peculiarities, expounded by P. Bardhan in this Handbook – may be a major explanation why experimenting worked in China, while the same approach failed miserably in Russia.

The room for, and the practice of, experimentation with competing options is also the case in some less centralized federal states such as Switzerland or Brazil. But the Chinese practice of experimental testing is unique in the long history of policy reforms, and so is the bottom-up approach. The successful model of the 1980s was first tested as an experiment by later Premier Zhao Ziyang when he managed Sichuan Province and later extended to the entire country. While experimentation was anything but unknown in the Soviet Union, their fate was usually marginalization. No wonder, in a vertically organized centralized state, the alien body is likely to evaporate. By contrast, the decentralized organization of China followed experimental solutions, including the Special Economic Zones, to flourish, without impeding the traditionalist practices of the neighboring regions.

It is understood that modern growth theory would forecast severe limitations to the sustainability of such a growth model eventually. Authoritative Chinese analysts talk about the need for supply-side reforms (Fan Cai, 2020, chapters 13 and 14) that allow the country to move on a path, where total factor productivity growth rather than factor inputs decide over the rate of growth. This is the way to cope with the problem of aging and environmental challenges. Financial intermediation can no longer be unilaterally subordinate to investment decisions taken by the center through bureaucratic bargains. *This insight is certainly a call for changing the vertical axis in systemic governance,* else the limitations of purely horizontal innovations are likely to come to the fore.

One of the many paradoxes of Chinese economic development has been the huge territorial and vertical inequality. In terms of regions, the backward West is – figuratively – home of the Middle Ages, while seashore cities, especially in the Special Economic Zones, exhibit a vibrant life, resembling American or Japanese counterparts. The per capita income difference may be as much as 13–15 times, as between Albania and Liechtenstein, still within one single polity (unlike the European countries in the comparison). In terms of Gini coefficient, the cited World Bank source estimate is 38.6, which is comparable to figures of Burundi, Indonesia, or Morocco. The trouble is that the named countries do not have egalitarian communism as an officially declared ruling ideology, nor do they possess the historic legacy of communitarianism.

The centralization tendency under the first decade of the Xi Presidency since 2012 has diminished the size of inequality (cf below), while the composition of the ruling stratum seems to have been changed. This happened in part due to political purges, in part due to market processes, most conspicuously illustrated by the collapse of the second-largest developer company of China, Evergrande in December 2021.

Under this angle, it is noteworthy that recent empirical analysis of Kanbur et al. (2021) has found the growth of inequalities peaking and even diminishing in the past decade. This may be due to the growing centralization of income policies, the introduction of partially state-run and partially corporate financed pension system as well as the growing central administration of prices. *In short, both vertical and horizontal aspects of systemic governance have come to play.* And diminishing inequality under more centralization has been one of the traditional laws of traditional comparative economics.

In the final assessment (at least for this section), we may come to the following conclusion. The centralized, but experimenting and innovative, Chinese system allowed the country to grow if it was a low level of development. The current per capita GDP at market prices is put to 11,819 US dollars, whereby the country is only number 61 from among the 160 countries ranked by the IMF in 2021.[4] This is in line with the received wisdom about the temporary uses of centralized management for resource mobilization and thus being adequate for the take-off period. But this may well be followed by the much-theorized middle-income trap. If the government is unwilling or unable to implement those far-reaching institutional reforms, which favor innovation and bottom-up endogenous growth, deceleration of growth is not just conceivable but even likely.

While China remained the only major country with positive growth in 2020 despite COVID, growth recovered to previous levels in 2021. But this is likely to be a one-time game, as the long-term trend is one of decline. The peak year of modern Chinese GDP growth was at 14 pc back in 2007, halving to 7.8 pc by 2012, further slowing to 7 pc in 2015, 5.95 pc in 2019, 2.4 pc in 2020 – that was world championship in the COVID year – and recovering at a robust rate of 8.1 pc in 2021 (preliminary), slowing down to 5.1 pc only in 2022 (World Bank Group: China Economic Update, 22 Dec. 2021), *which fits in the longer-term trend.* Once we consider that China tended to grow with a fixed capital formation ratio of 49 pc of GDP, currently down to 40 pc, and allocative efficiency being low, *the Domar and Solow inspired insights about the inevitability of secular slowdown seem to hold.* The alternative – as the Chinese analysts cited above – would be to radicalize market reforms, which does not seem to be the agenda of the Xi Presidency.

Furthermore, China has come to a crossroad (Csaba, 2020), not least due to the ongoing and even strengthening political centralization. The return of statism has long been demonstrable in the economy (Lardy, 2019). Reinforcing the Maoist principles and practices, including surveillance of dissidents and suppression of political disagreements on grounds of 'deviation from the Party line', seems to have been long forgotten or assigned to history books have been revived, according to Zhen (2020) and sources cited above and below. But reality is complex: *systemic governance reflects the empirically tested reality that economic and political decision-making may though be divorced, but only for a limited amount of time.* In the longer run, coherence emerges since the same person is unlikely to act from 8 to 16 hours as a bureaucrat, a Party loyalist, and start thinking in unconventional, innovative fashions from 16 to 24 hours. He who expects order in one dimension is unlikely to revolutionize technology and trade through his second self.

As I tried to elaborate in the article above, we do not yet have enough insights to tell if the game is over, and traditionalists are back on track. Many observers (Schuman, 2021) claim so. What we can venture is the conclusion that a strategy of continuous, even gradual, modernization and catching up with Singapore (59,500 US dollars) or Hong Kong (37,190 US dollars) in terms of per capita income would certainly require additional efforts in the direction of marketization and related regulation, which ensures the civilized outcomes of the business interplay. Evergrande may well have been the latest warning.

## 22.3 Systemic governance: A specific vehicle of comparative studies

Having conducted a schematic exercise in comparative economic studies, we have attempted to show how the concept of systemic governance may be helpful – in understanding real-world phenomena. This ambition has traditionally been a main driver of inquiries in the social sciences, though it has become gradually fading from the increasingly formal modern economics. It is coherence and the maths one uses which is the arbiter of decent quality research. No less of an authority than former chief economist of the World Bank, the 2018 Nobel winner Paul Romer (2015), reminded us of the dangers that the perfunctory use of mathematics often covers 'politics masquerade as science', while neglecting the tight, substantive, and logical interrelationships, which should be the backbone of the academic argument.

*Our concept is not liable to formal testing.* Still, as we hope to have illustrated, it may be helpful in comprehending real-world phenomena, not explained sufficiently by ruling approaches. This is how such old-fashioned concepts as trustworthiness and personal integrity, solidity, or even fundamental uncertainty have returned to economic analyses, especially following the Great Recession.

As the insightful analysis of Grzegorz Kolodko (2020) indicates, the rise of China could not have been predicted on the grounds of previously available theories. Neither neoclassical approaches, where the combination of factors is everything, nor historically informed, old institutionalism would have predicted the breakthrough in what he terms the move from the Third World to the First World. In so doing, the truly intriguing aspect is that of technological change. Players like Huawei or Lenovo would have been unthinkable in the Soviet Union, and comparative economics of the classical brand had convincing explanations, why so. Still, by highlighting the interaction of factors, mostly specific to China and its history, not least the considerable freedom allowed to entrepreneurs to experiment and imitate foreign solutions, sustaining intimate relationship to the diaspora, not least via FDI and cultural community, have produced miracles. Parts of China have long been integrated in the global system, as the COVID testified, while others, as Uiguria or Tibet, have an exceptionally long way to it.

But similarly, intriguing is the experience of backsliding in Central Europe. As the countries have been exposed to the common rules and increasingly supranational arrangements of the European Fiscal and Banking Union, the European Court of Justice, and not least of the European Central Bank and an ever more activist Commission, the regress into more statist options has been a surprise. If it happens under the banner of inter-governmentalism, *étatisme* is not something to be rejected out of hand. At the end of the day, it is Prime Ministers who sit on the Council, which has the final say on everything of relevance. This follows from the Treaties, even if some recent practices of promoting national champions are obviously out of line with the spirit and sometimes even the letter of European regulations.

As the analytical narratives we cited in the first section all agree, individual mishaps, individual errors, or slippages may well be attributed to coincidental factors. However, the genuinely interesting and worrying element is the multiplication of mistakes, all pointing in the same direction. This is what János Kornai (2021) in his last book calls repeatedly an autocracy, where people are not killed or imprisoned for their dissenting views, as in Belarus or North Korea, but they may lose their jobs, access to publicity, or forced to sell their property at bargain prices, when an 'irresistable' offer emerges.

A telling example of how *the traditional meaning of privatization versus nationalization may change* can be taken from the banking sector. Here re-imposing national majority ownership counts as a basic strategy for the Fidesz government in the entire 2010–2022 period. The most illustrious among the many similar cases has been that of the Hungarian Foreign Trade Bank, MKB. This institution had been privatized to the Bayerische Landeszentralbank, not least to ensure capital backing at a crisis that may erupt on global markets. Surprisingly to many, it was the mother company, the Bavarian parastatal that got into trouble in 2009, due to their involvement on the American subprime market, while MKB was still faring well. As one of the conditions for recovery from German public money, the regulator prescribed that the BLZ sells off all its affiliations abroad, since these qualify as risky.

The MKB controlling much of the finances of the top echelons of business and politics was finally bought in 2015 by a group of private persons, led by Imre Balogh, by that time CEO (currently deputy CEO) of MKB and former Deputy Governor of the National Bank. The gentleman received a multibillion low-cost credit to purchase the bank. The institution needed recapitalization, which happened in several tranches. Finally, in 2020, the bank was sold to Lőrinc Mészáros, who is a close friend of the PM. The bank was merged with two others, Budapest Bank, bought from GE Capital in 2017, and Takarékbank, a conglomerate of rural savings' cooperatives. The thus emerging Hungarian Bank Holding is comparable in asset size to the previously market-dominant OTP.

It is difficult to explain to anyone familiar with bank economics, what is the logic of merging three banks with entirely different clientele, different cultures, and different managements/histories. Besides the top management, everything seems to have remained intact. In sum, no feedback from the market. Alas, until spring 2022, not even a common stamp or a common logo of the conglomerate was created, which suggests a formal merger, following a political and power logic. The relative efficiency, and especially the improvement in the performance of the constituent banks, is yet to be established, but is not over the all-out recovery of financial intermediation in general.

State property has amassed a completely new meaning between the two crises in the global economy (Szanyi, 2019b). And so had state regulation, over and above the classical role of the custodian of public interest against private monopolies and political arbitrariness, as the classical book of Eucken (1940 [1992]) would have suggested. But if we follow the reading of Robert Wade (2018) it is still a very distinct creature from the East Asian practices, where private property and co-decision of business and political elites have been the rule. By contrast, the literature and empires we cited all indicate a model where political power is the independent and business power the dependent variable.

Rochlitz and associates (2020) rightly termed the above as business capture, by reverting the more classical concept of state capture, when – as in Latin America – business groups dominate public offices. But this has evolved under the Putin era into institutionalized and centralized corruption, where the subordination of business interest is even more explicit.

The literature is divided on what to think of this strange interlude. Voszka (2021) for one argues that this is a trend observable also in the West positively triggered by the Great Recession, particularly in countries like Spain, Italy, and France; thus, it is not to be singled out as a peculiar feature of post-communist change. By contrast, many of our sources cited above, especially Magyar and Madlovics (2020) and Szelényi and Mihályi (2020) underscore the sociopolitical content and consequences of this institutional change, driving all countries concerned farther away from any form of liberal market economy, irrespective of historical preliminaries or geographical location. In the latter reading, Putinism is not a perversion but a central model of modern political capitalism. Self-enrichment, as opposed to any interpretation of a public purpose, has been prevailing, as a formative element.

Here we have another example, where *foreign and domestic, political, and economic, personal, and market considerations all coexist.* None of the previously available theories, either of political science or of finance, would have been helpful in explaining what could be observed. *Systemic governance is the clue.* No macro- or micro-theory on its own could replace this interdisciplinary concept and toolkit of analysis.

The concept is useful if *we are to explain in positive terms what the illiberal state and the authoritarian model of the economy mean in Central Europe,* without replacing previous, established concepts, complementing those. The statist turns, which are by no means restricted to the post-communist world, have revived the age-old debate if civilized market economy and parliamentary democracy are mutually supportive, or presuppose one another eventually, or by contrast, this claim is doctrinaire and made obsolete by history. The original suggestion goes back to the founding father of the German social market economy, Walter Eucken (1940 [1992]) who famously argued, on the ground of empirical and philosophical considerations, that *the two orders are inherently intertwined.* Therefore, eventually, no dictatorship can coexist with a market economy, and no democratic system survives the lack of a market economy.

The case of market socialism, i.e., a democratic superstructure based on a centrally managed economy and public property, has been shown to be unfeasible both in theory and on the ground (Kornai, 1993; Kornai, 2007).

While not preempting the chapters on China in this volume, we may recall that Chinese authors regularly speak of a socialist market economy, where *the use of market forces remains constrained and instrumental to serving* and reflected in major *policy objectives set by the Communist Party.* Therefore, investment decisions continue to be made centrally, rather than following signals of a thin and segmented capital market (Lin, 2012 and Zhang, 2014, two authors not yet accounting for the further centralization that occurred since their publication).

The other option is more complex. With the global revival of statism governmental management of economic affairs has spread throughout the country and the sector. We have cited above the debate if it is triggered by hyper-globalization or by political regression to authoritarian populism. The collection of papers edited by Szanyi (2019b) gives a broad overview of how and why appreciating *the role of public management of economic affairs has been gaining momentum and has become part of good manners also in advanced economies.* Powerful interpretations of the developmental state (Wade, 2018) also argue in favor of combining statism with dynamic economic growth. This is plausible, but not our reading of events.

*What we have seen is more interventionism without more public property and central management.* In East Asia, while the model is a long way from the original Washington Consensus, it is based on the role of private business and open foreign relations, including finances. In Western Europe and the United States, we see classical big government more along the traditional tax and spend manner, or of selective protectionism, including R&D support and market oversight, not a general trend to populist-authoritarian rule, as was feared under the Trump era. By contrast, reverting market reforms in Russia and China, but also in Poland and Hungary, in a different quality, have entailed limitations on the previous 'neoliberal' political arrangement.

Relying on the concept of systemic governance, we may be less surprised. This concept provides *the micro- and meso-economic foundation for understanding what we see in the macro. Overall – though not in the short run – Eucken was right.*

## 22.4 Preliminary wrap-up

In this chapter, we introduced a novel concept in comparative economic studies, systemic governance. Building on established approaches in management, we made some productive steps. First, a micro-based approach to macroeconomics was introduced, which does not neglect but incorporates the institutional dimension in explaining various varieties of capitalism. Second, we provided justification for multidisciplinary approaches. Third, in parallel to financial economics, we advocated the use of qualitative approaches in understanding real-world phenomena. Fourth, we provided schematic analyses of top-down and bottom-up cases of social engineering. Finally, we attempted to integrate our insights in previously available knowledge.

This intellectual journey may prove the usefulness of comparative economic studies approach to understanding real-world phenomena. While being just one of the many competing and conceivable options, we hope to have contributed to clarifying what is the future and what are the analytical and policy uses of this field of inquiry.

## Notes

1 Useful comments of the editors, as well as of D. Győrffy and G.W. Kolodko are appreciated with the usual caveats.
2 Iván Szelényi (2016) reminds us of the fact, that the insight about the *Macht des Beherrschten* goes back to the writings of Max Weber, as a fourth type of power. This insight, no matter how foundational for modern thinking, has been forgotten more than once.
3 For long term standardized and comparable data cf: databank.worldbank.org, accessed on 12 June 2021.
4 IMF: *World Economic Outlook,* April, 2021 (retrieved on 11 June 2021).

## References

Bagenholm, A. et al. eds. (2021). *The Oxford Handbook of the Quality of Government*. Oxford and New York: Oxford University Press.

Blanchard, O. and Summers, L. eds. (2019). *Evolution or Revolution? The State of Macroeconomic Policies*. Cambridge, MA and London: MIT Press.

Blum, K. and Varga, M. (2021). Conservative developmental statism. In: Pickel, A., Blum, K. and Varga, M. eds: *Handbook of Economic Nationalism*. Cheltenham: Edward Elgar (in print, text accessed via ResearchGate, 21 May).

Burda, M. and Wyplosz, C. (2017). *Macroeconomics: A European Text*, 7th edition. Oxford and New York: Oxford University Press.

Cai, F. (2020). *Demographic Perspective of China's Economic Development*. Abingdon: Routledge.

Casagrande, S. and Dallago, B. (2021). Benchmarking institutional variety in the Eurozone: an empirical investigation. *Economic Systems*, vol. 45, no. 1, article no. 100 838 (retrieved from Elsevier website, 20 May).

Csaba, L. (2020). China at the crossroads. *Acta Oeconomica*, vol. 70, special issue no. 1, pp. 3–14.

Csaba, L. (2021). Institutions and change: new horizons for economic theory. In: Gerőcs, T. and Ricz, J. eds: *The Post-Crisis Developmental State*. Houndmills: Palgrave, pp. 13–31.

Eucken, W. (1940 [1992]). *The Foundations of Economics: History and Theory in the Analysis of Economic Reality*. Heidelberg: Springer Verlag.

Fang, G., Ma, G. and Wang, X. (2019). Institutional reform and economic growth in China: a 40-year progress report toward marketization. *Acta Oeconomica*, vol. 69, special issue no. 1, pp. 7–20.

Galbács, P. (2020). *The Friedman–Lucas Controversy in Macroeconomics: A Structuralist Approach*. London: Academic Press.

Gevorkyan, A. (2018). *Transition Economies: Transformation, Development and Societies in Central-Eastern Europe and the Former Soviet Union*. Abingdon: Routledge.

Grabel, I. (2017). *When Things Don't Fall Apart: Global Financial Governance and Developmental Finance in an Age of Privatization*. Cambridge, MA and London: MIT Press.

Győrffy, D. (2021). The middle-income trap in Central and Eastern Europe. *Comparative European Politics*, vol. 20, no. 1, pp. 90–113.

Kanbur, R., Wang, Y. and Zhang, X. (2021). The great Chinese inequality turnaround. *Journal of Comparative Economics*, vol. 49, no. 2, pp. 467–482.

Kolodko, G.W. (2020). *China and the Future of Globalization: The Political Economy of China's Rise*. London: I.B. Tauris.

Kolodko, G.W. (2021). *The Quest for Development Success: Bridging Theoretical Reasoning with Economic Practice*. Lanham, MD: Lexington Books.

Kornai, J. (1993). Market socialism revisited. In: Bardhan, P. and Romer, J. eds: *Market Socialism: The Current Debate*. Oxford and New York: Oxford University Press, pp. 42–68.

Kornai, J. (2007). *From Socialism to Capitalism*. Budapest and New York: CEU Press.

Kornai, J. (2016). The system paradigm revisited. *Acta Oeconomica*, vol. 66, no. 4, pp. 547–596.

Kornai, J. (2021). *Töprengések (Reflections)*. Budapest: HVG-Orac.

Lardy, N. (2019). *The State Strikes Back: The End of Economic Reform in China?* Washington, DC: Peterson Institute of International Economics Press.

Leutert, W. (2021). Innovation through iteration: policy feedback loops in China's economic reform. *World Development*, vol. 138, February, article no. 105 173.

Lin, J.L. (2012). *Demystifying the Chinese Economy*. Cambridge and New York: Cambridge University Press.

Magyar, B. and Madlovics, B. (2020). *The Anatomy of Post-communist Regimes. A Conceptual Framework*. Budapest and New York: CEU Press.

Merkel, W., Kollmorgen, R. and Wagener, H.J. eds. (2019). *The Handbook of Political, Social and Economic Transformation*. Oxford and New York: Oxford University Press.

Önder, Z. and Özildirim, S. (2016). Foreign banks, financial crises, and macroeconomic fluctuations. *Economics of Transition and Institutional Change*, vol. 24, no. 3, pp. 447–469.

Rochlitz, M., Kazun, A. and Yakovlev, A. (2020). Property rights in Russia after 2009: from business capture to centralized corruption? *Post-Soviet Affairs*, vol. 36, nos. 5–6, pp. 434–450.

Romer, P. (2015). Mathiness in the theory of economic growth. *American Economic Review*, vol. 105, no. 5, pp. 89–93.

Schuman, M. (2021). The undoing of China's economic miracle. *The Atlantic*, vol. 163, no. 1, online edition, accessed on 9 June.

Szanyi, M. ed. (2019b). *Seeking the Best Master: State Ownership in the Varieties of Capitalism*. Budapest and New York: CEU Press.

Szanyi, M. (2019a). The emergence of patronage and changing forms of rent seeking in Central and Eastern Europe. *Post-Communist Economies*, vol. 34, no. 1, pp. 122–141.

Szelényi, I. (2016). Weber's theory of domination and post-communist capitalisms. *Theory and Society*, vol. 45, no. 1, pp. 1–24.

Szelényi, I. and Mihályi, P. (2020). *Varieties of Post-Communist Capitalism: A Comparative Analysis of Eastern Europe, Russia, and China*. Leiden: Brill.

von Mises, L. (1940 [1963]). *Human Action: A Treatise on Economics,* 3rd, revised edition. Chicago, IL: Contemporary Books.

Voszka, É. (2021). The dynamics of state ownership: the decisive role of crises. *Acta Oeconomica*, vol. 71, no. 2, pp. 235–257.

Wade, R. (2018). The developmental state: dead or alive? *Development and Change*, vol. 49, no. 2, pp. 518–541.

Xu, G.-D. (2015). The institutional foundations of China's unbalanced economy. *Europe-Asia Studies*, vol. 67, no. 1, pp. 1351–1370.

Zhang, W.-Y. (2014). *The Logic of the Market: An Insider's View of Chinese Economic Reform*. Washington, DC: CATO Institute.

Zhen, J. (2020). Artificial intelligence and China's authoritarian rule. *International Affairs*, vol. 96, no. 6, pp. 1441–1459.