

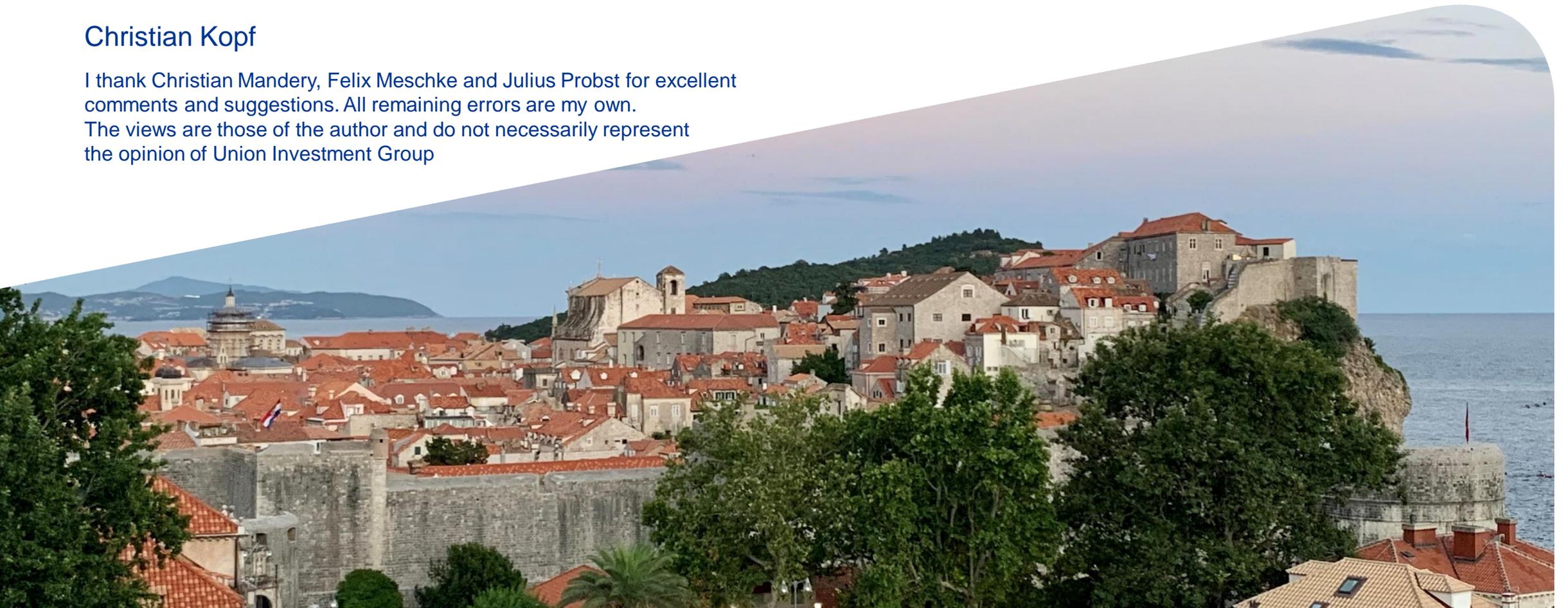
27th Dubrovnik Economic Conference

# The state is back to stay?

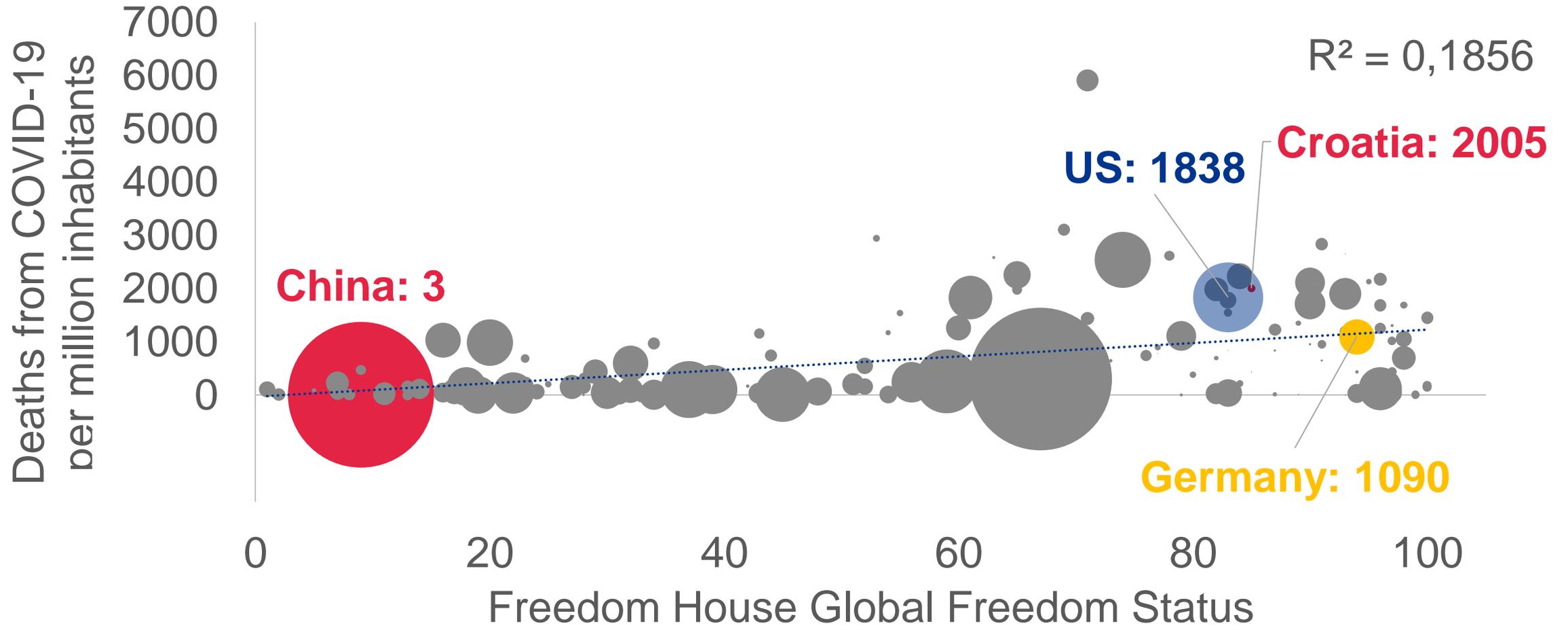
Christian Kopf

I thank Christian Mandery, Felix Meschke and Julius Probst for excellent comments and suggestions. All remaining errors are my own.

The views are those of the author and do not necessarily represent the opinion of Union Investment Group

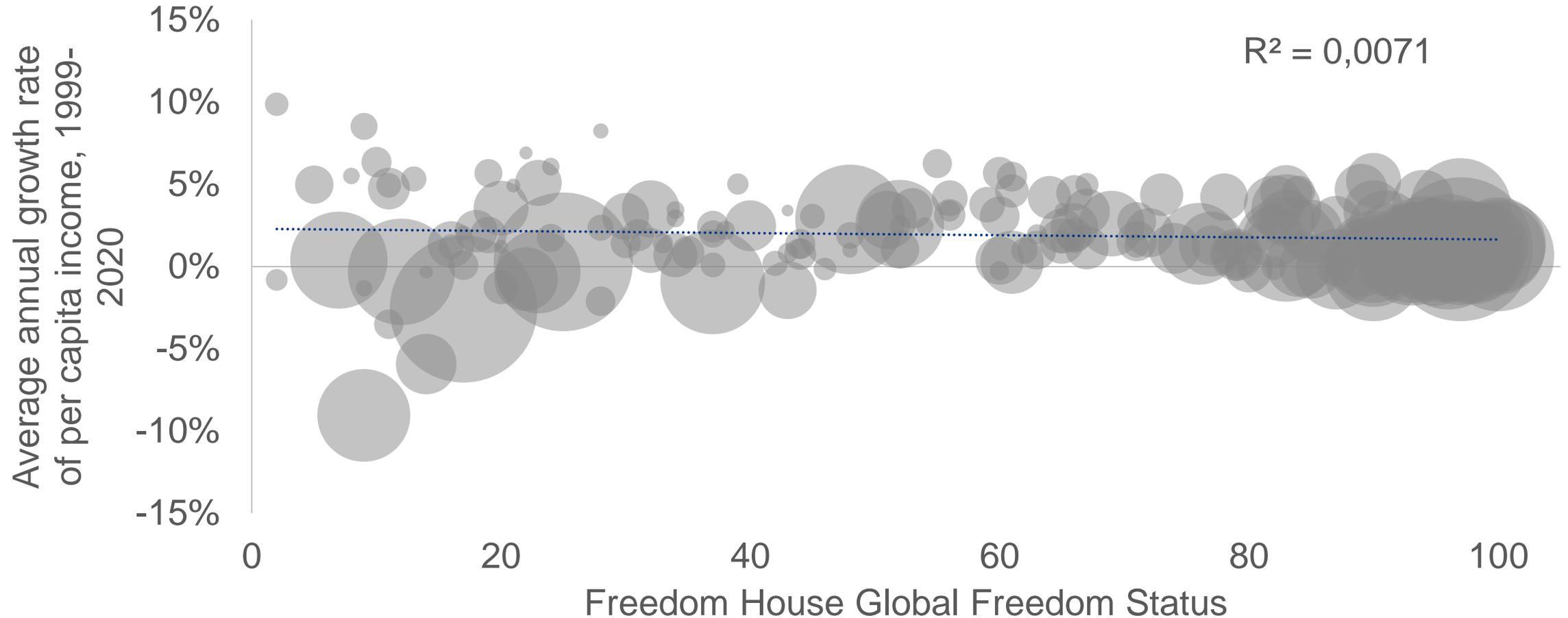


# Many authoritarian states were more successful than the West in dealing with COVID-19



Bubble size represents population size. Source: author's calculations

# Authoritarian states were equally successful in generating prosperity over the past two decades



Bubble size represents per capita GDP in 1999 in international dollars. Source: author's calculations

# Authoritarian states were equally successful in generating prosperity over the past two decades

## Regression Statistics

Multiple R	0.3217013
R Square	0.1034917
Adjusted R Square	0.0929446
Standard Error	0.0220499
Observations	173

For every \$10,000 in 1999 GDP-per-capita, GDP growth is lower by 0.44 percent over the subsequent period. This correlation is highly statistically significant.

After controlling for 1999 GDP-per-capita, the Freedom House Index has no additional explanatory power in explaining GDP growth. The variable is statistically insignificant.

## ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	0.009541	0.0047707	9.812288	9.271E-05
Residual	170	0.082654	0.0004862		
Total	172	0.092195			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.0245	0.0038	6.5398	0.0000	0.0171	0.0319	0.0171	0.0319
Initial level	-0.44%	0.0000	-4.2754	0.0000	0.0000	0.0000	0.0000	0.0000
Freedom	0.00148%	0.0001	0.2467	0.8055	-0.0001	0.0001	-0.0001	0.0001



# Hayek's ideal types of social order

## Cosmos

Markets

Spontaneous order

Guided by rules

“The result of human action,  
but not of human design”



## Taxis

Organisations

Teleocratic order

Innate response to commands

Follows a purpose

# Configurations

## 1. The state serves the private sector

**Private Sector**



**State**

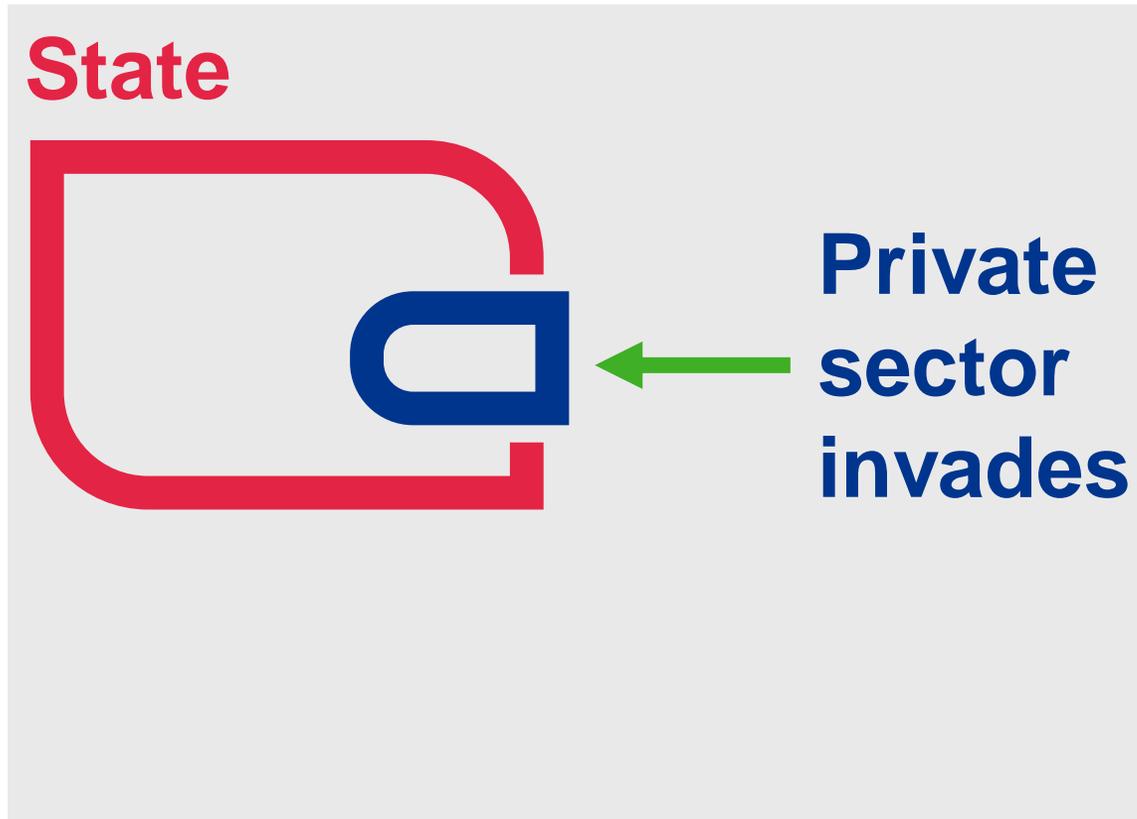
A small state acting as “night watchman” and service provider to the private sector

The vision of the “Washington Consensus”

Justification for deregulation and market orientation

# Configurations

## 2. State capture by the private sector



“In the FSU especially, insider favouritism and insider favouritism for privatisation of state assets has resulted in a high concentration of wealth and the rapid formation of very rich capitalists. ... A sharp increase in corruption in most FSU countries as well as a few others in the West, and the evolution of oligarchs as a powerful but negative force in the economics and politics of these countries ... comprise the major challenges facing some post-communist countries in the future.”

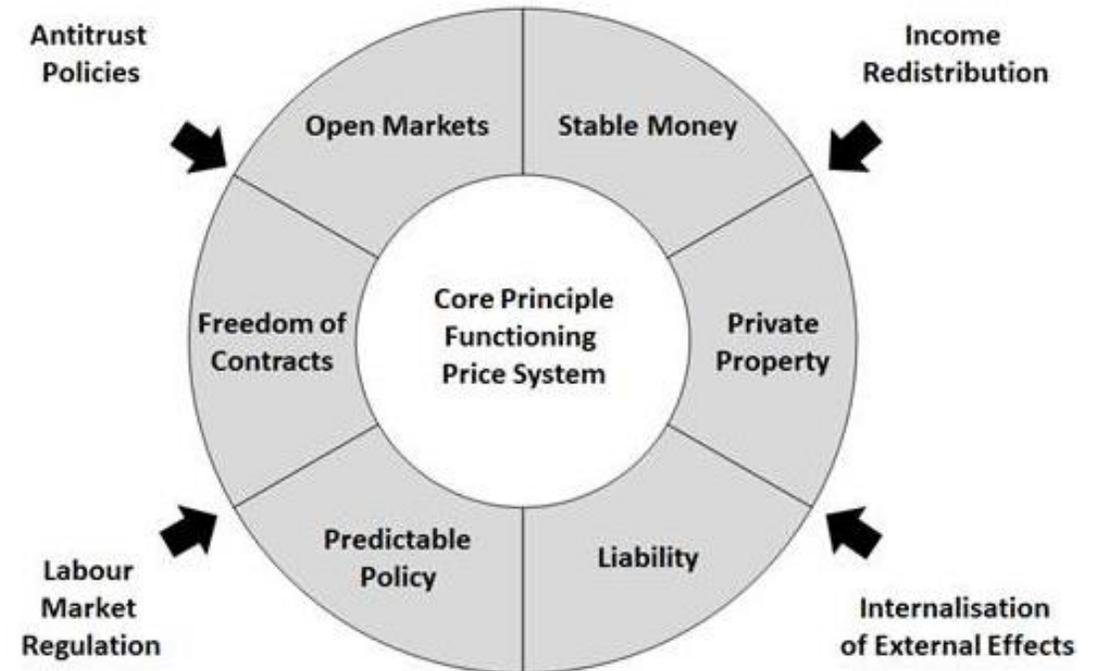
Oleh Havrylyshyn, 2021

# Configurations

## 3. State as framework setter



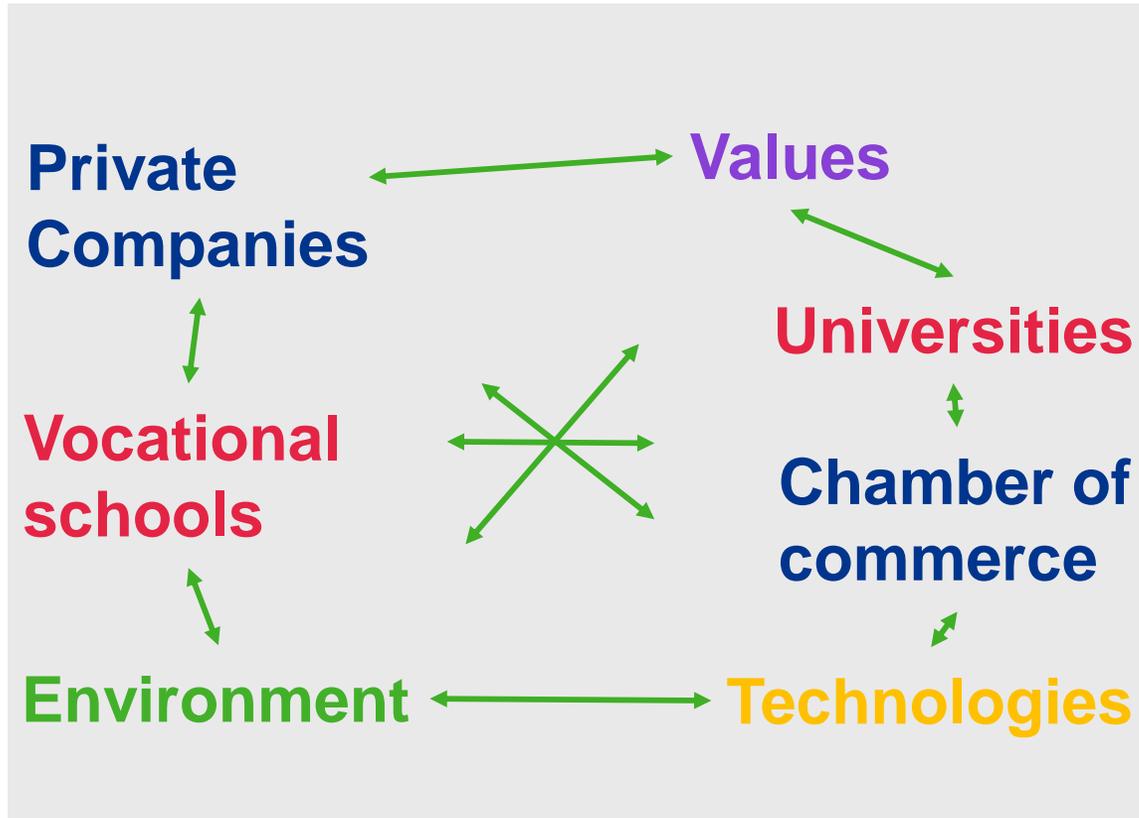
## Eucken's Principles of Economic Policy



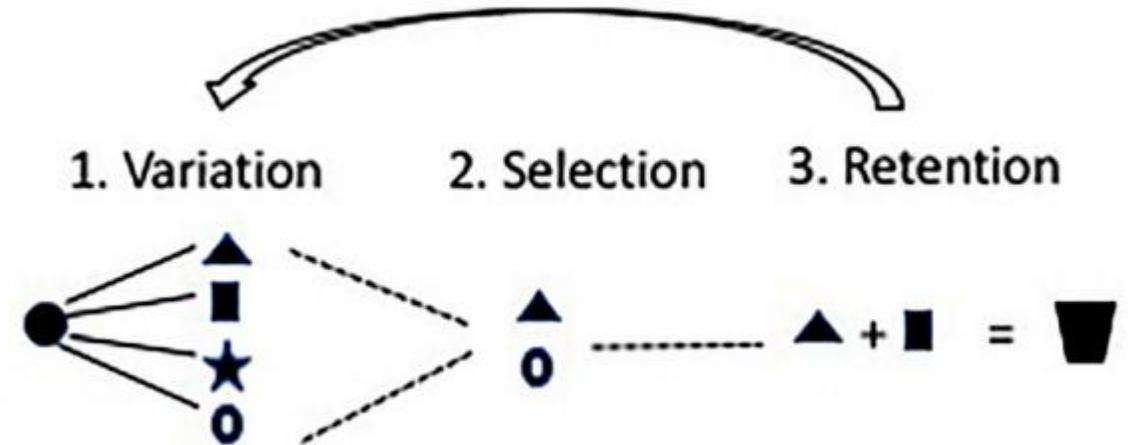
# Configurations

## 4. Coevolution between state and private sector

System of dual education  
within Germany's industrial clusters

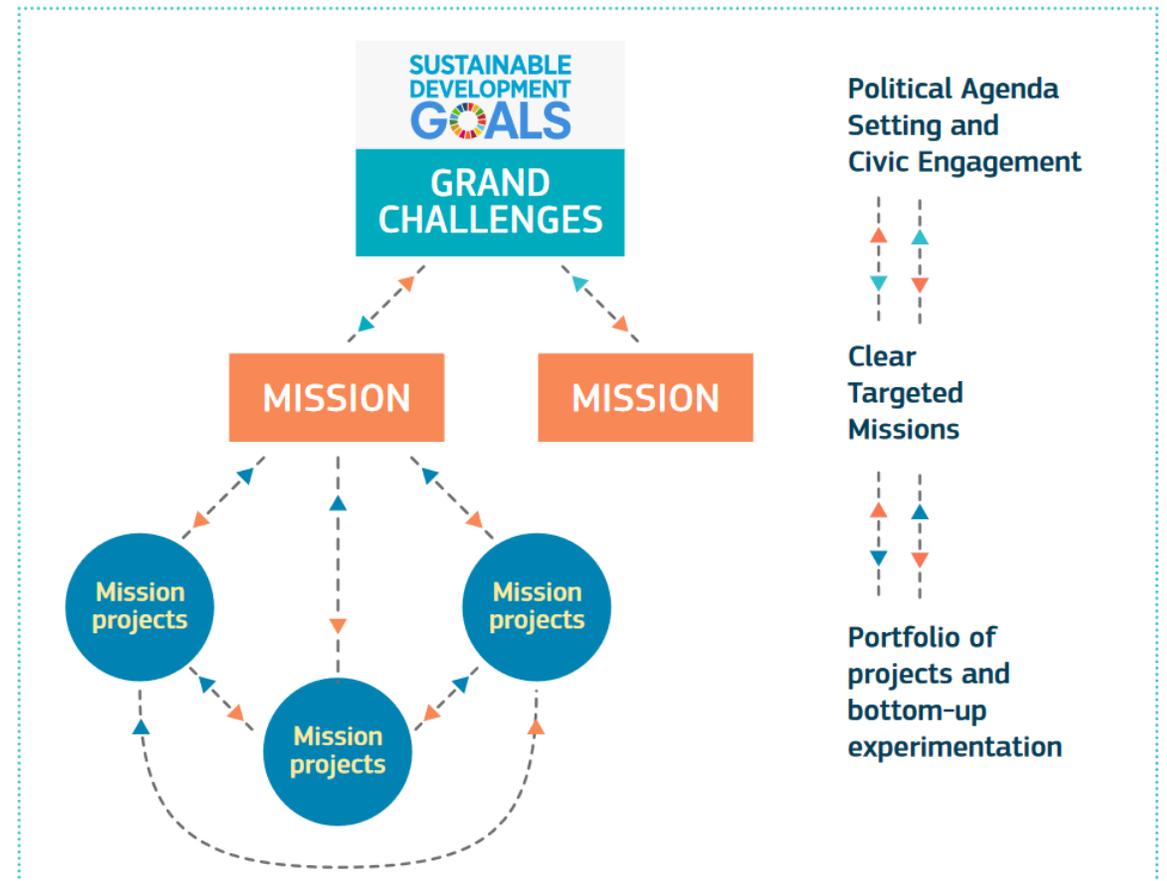
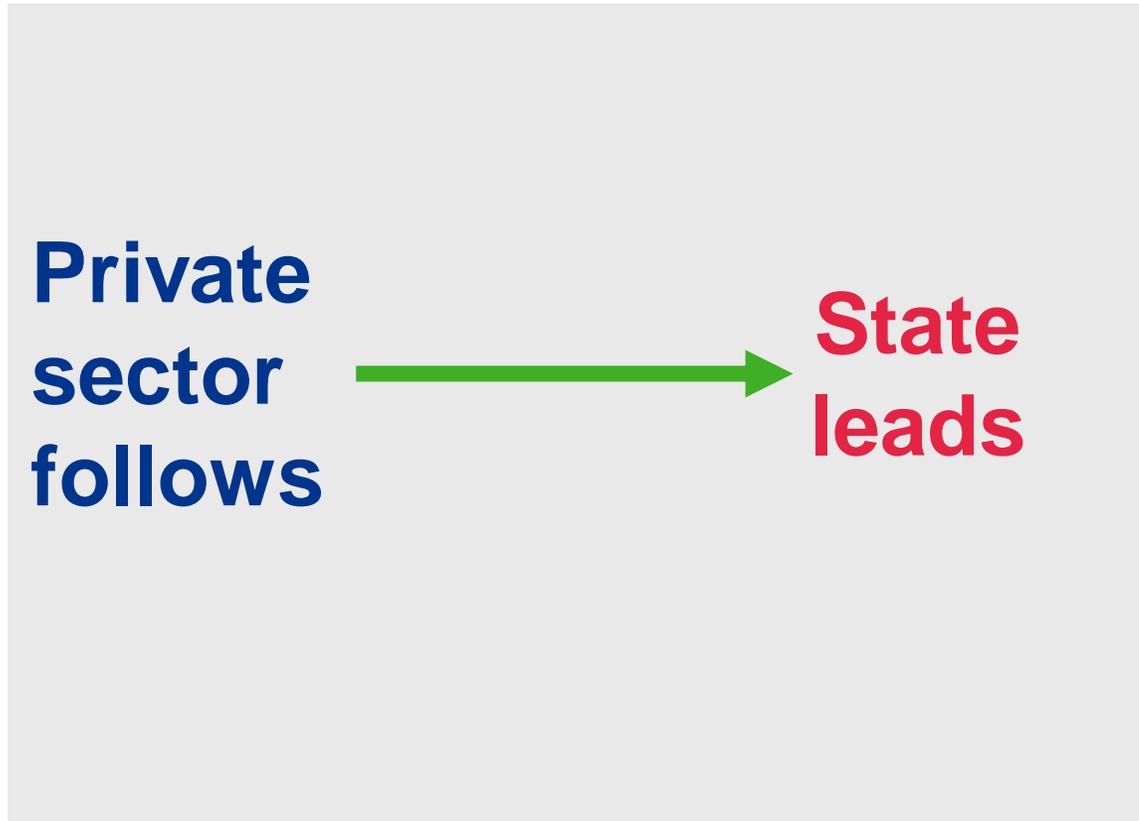


Coevolutionary feedback loop



# Configurations

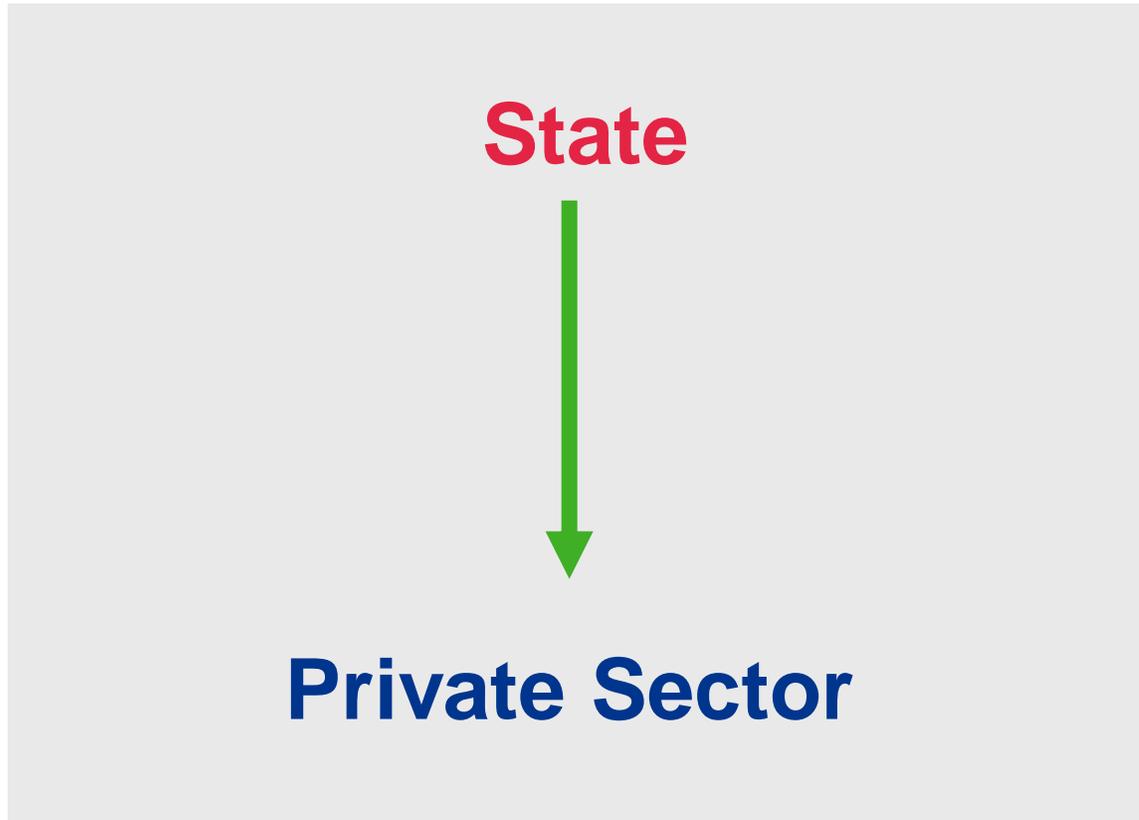
## 5. State as mission setter



Source: Mariana Mazzucato, Mission-Oriented Research & Innovation in the European Union

# Configurations

## 6. The private sector serves the state (central planning)



“Sorry, guys, this was just an idea...”

# Configurations between the private sector and the state

**Cosmos** Small **state serves** the private sector (Washington Consensus)

Large **state captured** by private sector agents

State sets the **institutional framework**

**Coevolution** between state and private sector

State as **mission setter** (Cornwall Consensus)

**Taxis** **Private sector serves** the state (central planning)





As the international community strives to implement the sustainable development goals, adapt to climate change, and ensure all citizens benefit from increasing prosperity, the G7 should lead action to strengthen and, where needed, reform international markets and institutions. The G7 should therefore pledge to:

- **Solidarity:** Accelerate reform of global economic governance to promote the common good; ensure that national economic policies not only respect each others' interests, but **advance common goals**; and respond more collectively to economic crises, coercion and market distortions.
- **Better Risk Management:** Establish collective mechanisms to monitor, assess and invest in addressing emergent economic, environmental or geo-political risks:

- **Sustainable and Purposeful Supply: Collaborate with business** to design open innovation-friendly market systems which are resilient to natural or deliberate disruption in critical sectors affecting national, economic or human security;
- **Better Governance:** Promote common global standards, rules and norms for the new economy which conform with our values, promote sustainability, uphold labour standards, and encourage national and international regulations that strengthen our collective economic resilience; and
- **Inclusion:** Accelerate investment in the Sustainable Development Goals, promote digital inclusion, eliminate tax evasion, and facilitate full access for developing countries to global markets; alongside national policies to tackle inequality and support traditionally under-represented groups such as women and minorities.



## **Grand challenge:** Economic Resilience

**Mission:** Accelerate investment towards climate change mitigation and adaptation

### **Portfolio of projects:**

- Establishing a CERN for Climate Technology
- Common framework for green and transition bonds
- Phase out inefficient fuel subsidies
- Improve market circularity in sectors where reuse rates are below 10%
- Develop a trade mechanism that prevents carbon leakage

# Conclusion

## Current issues

- Containing pandemics and climate change requires stronger governments
- State intervention can help produce “winner-takes-all” outcomes for countries and help manage adverse income distribution effects
- Economic success could overcome authoritarian threat to open societies

## Measures

- The West is changing its strategy from containment to competition
- The resulting surge in system competition will change the role of the state

## Challenges

- Mission setting may lead to wasteful spending and a culture of dependency, coevolution between state and private sector has served Germany well

# Conclusion: The state should cultivate rather than control

“Though we may not be able to bring about the particular results we would like, knowledge of the principle of the thing will enable us to make circumstances more favourable to the kinds of events we desire ... Such activities in which we are guided by a knowledge merely of the principle of the thing should perhaps be described by the term cultivation than by the familiar term ‘control’ – cultivation in the sense in which the farmer or gardener cultivates his plants, where he knows and can control some of the circumstances, and in which **the wise legislator or statesman will probably attempt to cultivate rather than control the forces of social processes.**”

Friedrich August von Hayek