The Journal of Illiberalism Studies
Vol. 3 No. 1 (2023): 105-118.

The Comparative Economics of Neo-Illiberalism

LÁSZLÓ CSABA

Abstract

This essay aims to provide an explicitly economistic explanation for the astonishing spread of economic illiberalism in the twenty-first century. Given that the twentieth century was largely a period of economic planning of various sorts, which ended in conspicuous failure, the revival of statism and micro-management of economic affairs in many—if not most—parts of the globe cries out for explanation. The paper explores why and how this trend has re-emerged and solidified in a large number of countries, their diverse factor endowments, historical legacies, cultural backgrounds, and political institutions notwithstanding. The trend has ideational as well as materialistic roots.

Keywords: neoliberalism; neo-illiberalism

László Csaba
Central European University, Vienna, and Corvinus University of Budapest, Hungary
csabal@ceu.edu
DOI: 10.53483/XCLX3550

The political economy of the past two centuries of capitalist development has been characterized by a paradox. Even as politicians have preached and legislated much of what a free-market economy would require, reality has been shaped by a largely illiberal set of practices, and not only in late-industrializing countries, as highlighted in Alexander Gerschenkron's classic analysis.[1] My own account of the post-Second World War period supports this insight, both in terms of theory and in terms of accounting for economic success in developing countries.[2]

In this article, I surveyed the experiences of Russia, China, Central European states, and developing states. [3] This paper complements that research with new theoretical interpretations and new case studies: Western Europe; illiberal Central Europe, exemplified by Hungary; and the Asian success stories of poverty reduction. In India and China, two large countries with highly distinct factor endowments, we find a strikingly similar commitment to economic and political statism over the past two decades, which is the focus of our attention here. Statist illiberalism is, in itself, neither novel nor surprising—but its return is indeed perplexing.

If it is the case that unsuccessful policies are making a return, introducing a neologism, at least for the economist, on illiberal practices and supportive theories of the twenty-first century may make perfect sense. The point of using the new terminology is to set aside what we observe in the current century that is rooted in the established practices of, say, developmental states in East Asia and elsewhere;[4] Soviet-style command economies; or Chinese economic development in the past half-century. Instead, I would argue that neo-illiberalism denotes *a new, previously unseen version of state interventionism*. This set of policies, which more often precede than follow its theoretical formulations, leads to the emergence of a new form of economic management.

According to *Science Direct*, the term "neo-illiberalism" was first introduced by the now-83-year-old editor of the *Economic Times of India,* Swaminathan Ayiar,[5] who used it to describe the growing state intervention in his country that preceded the Modi era. The concept evolved over the decade that followed, with Reijer Hendrikse analyzing over 50 instances of its use in his broad survey article.[6] Meanwhile, a well-reviewed monograph by Aviezer Tucker analyzes how right-wing movements can and do employ the new methods of illiberalism and how the constituent elements of classical neoliberal approaches combine to produce a new version of statism.[7] The mirror image of "neo-illiberalism" is what Polish Minister of Finance and Vice Prime Minister Grzegorz Kolodko—one of the most vocal critics of economic neoliberalism—calls, in his recent book, "new pragmatism." He uses this term to describe his eclectic, heterodox approach to politics, in which the state takes an activist role in bringing about outcomes that are socially and environmentally sustainable.[8]

Economic theory, the neoclassical consensus, and the theory of economic policy in particular, as propounded in good schools, tend to be a broad church. But this church, like global religions, shares some basic tenets, including an attachment to methodological individualism and a commitment to private property and civil

1 Alexander Gerschenkron, *Economic Backwardness in Historical Perspective* (New York: Belknap Press, 1962).

2 László Csaba, "Illiberal Economic Policies," in *Routledge Handbook of* Illiberalism, ed. Stephen Holmes, Andras Sajó, and Renata Uitz (New York: Routledge, 2021), 674-690.

3 The useful comments of Zs.I. Benczes, I.T. Berend, and I.Szelényi, as well as of the editor and an anonymous referee, are appreciated, with the usual caveats.

4 Tamás Gerőcs and Judit Ricz, eds., *The Post-Crisis Developmental State: Perspectives from the Global Periphery* (Cham: Palgrave Macmillan, 2021).

5 Swaminathan Ayiar, "Neo-Illiberalism on India's Bane," *The Times of India,* July 17, 2011.

6 Reijer Hendrikse, "Neo-Illiberalism," *Geoforum* 95 (October 2018): 169-172, https://doi.org/10.1016/j.geoforum.2018.07.002.

7 Aviezer Tucker, *Democracy against Liberalism: Rise and Fall* (Cambridge: Polity Press, 2020).

8 Grzegorz W. Kolodko, *The Political Economy of New Pragmatism* (Cham: Springer Nature, 2022).

liberties. The general approach tends to see any form of state interventionism as lacking justification. By contrast, reliance on markets and self-regulation seems to be taken as a given in all except crisis situations. While both the classical and new versions of the dominant lines of thought—monetarism and Keynesianism—see the market as the fundamental institution of economic progress, they diverge on the appropriate role for monetary and fiscal activism.

In the current century, the economic reality on the ground seems quite different from the theory. There have been a series of compelling cases where state-owned enterprises have played a major role in bringing about economic growth[9]—albeit largely in emerging economies. But among the advanced economies, too, one may observe the revival of state activism, including the growth of re-distribution as a share of GDP and the keeping of national champions in public hands, supported by ever thicker, deeper, and more meticulous regulation (and not only in the financial sector).[10]

What is particularly remarkable is that state interventionism seems to have solidified, at least in Europe, long after the years of immediate crisis management (post-2008 and post-2020).[11] Meanwhile, the big success stories of fighting global poverty—namely China[12] and India[13]—have embarked on a path toward open and lasting statism, which entails picking winners, protecting markets, and channeling funds to those close to the political authorities rather than following any abstract principle.

The rise of statism is a truly surprising development, and not only because it flies in the face of the received textbook wisdom. The collapse of the Soviet Empire and the period of Great Moderation in the economic practices of OECD countries between 1989 and 2008 created a consensus policy view that market opening and liberalization—including financial liberalization and deepening, but also privatization in most (if not all) sectors—is good for growth in general and for poor countries in particular. As the Nobel Prize-winning economist Michael Spence elaborates, the general validity of market principles goes much deeper than the once much-discussed Washington Consensus, the one-time ultimate wisdom of international financial institutions (IFIs).[14] It implies a much more thorough commitment to open-market principles than IFIs have ever called for. The evidence he cites and summarizes—in terms of both theory and empirics—is rather straightforward in this field.

From the angle of commitment to market principles, we find a series of questions to be clarified. *First,* why have countries in Central and Eastern Europe—which adopted Western-style market economies following their bitter experiences with statism dating back to the interwar period—largely turned down illiberal paths since the 2010s despite their membership of the European Union?[15]

9 Lalita S. Som, *State Capitalism: Why SOEs Matter and the Challenges they Face* (Oxford: Oxford University Press, 2022).

10 Miklós Szanyi, ed., *Seeking the Best Master: State Ownership in the Varieties of Capitalism* (Budapest: CEU Press, 2019).

11 If one recalls President Trump's use of "helicopter money" by sending cheques directly to millions of households or West European countries' highly centralized and highly nationalistic arrangements, both in terms of vaccine purchases and introducing health-and-safety regulations, the pandemic as a trigger of statism does not require much elaboration, but is rather axiomatic. The subject of the debate on both sides of the Atlantic has been whether this is temporary or a lasting trend.

12 Renwei Zhao, *China Economic Transition Research* (Abingdon: Routledge, 2021); Justin Yifu Lin, *Beating the Odds: Jump-Starting Developing Countries* (Princeton, NJ: Princeton University Press, 2017).

13 Prasanna Mohanty, *Unkept Promise: What Derailed the Indian Economy* (Thousand Oaks, CA: SAGE, 2021); Ashoka Mody, *India is Broken: A People Betrayed, from Independence to Today* (Stanford, CA: Stanford University Press, 2022).

14 Michael Spence, "Some Thoughts on the Washington Consensus and Subsequent Global Economic Development," *Journal of Economic Perspectives* 35, no. 3 (2021): 67-82, https://doi.org/10.1257/jep.35.3.67.

15 The exceptions include the Baltics and Slovakia. But in the old EU we may list France, Italy, Greece, and Spain among those states that are more interventionist and less liberal today than they were, say, a decade ago.

Second, why has most of Western Europe—and specifically its core countries—not returned to the successful practices of Great Moderation, instead sustaining state interventionism long after the crisis has passed? This is very different from the practices of the United States, the globe's largest economy, although the latter falls outside the scope of the present analysis.[16] Comparative economics must be selective if it is to retain a broader focus beyond describing individual cases.

Third, why do we observe in the large emerging markets, particularly in China and India, a trend toward more rather than less statism, when such policies have never been particularly good at enhancing social welfare in any of these nations?

The answers to these three basic questions are neither trivial nor axiomatic—not least because illiberalism and populism have been a subject of inquiry in the social sciences for at least a quarter-century[17] and most of the output is highly critical of the phenomenon. Thus, our puzzle is the drift between the theoretical-normative and the observed-empirical.

Central Europe: A Relapse to Centralism

Most of the literature uses the term "postcommunist countries" or "Central and Eastern Europe" (CEE) to denote the countries that still bear a more or less totalitarian heritage. Both terms are misleading. "Postcommunist," like "new EU members," defines a group by what it is not, or no longer is, which is an obvious analytical weakness. Meanwhile, CEE covers a very broad area, namely the entire former Soviet bloc and the Balkans—a group of countries with wildly different histories, institutions, and cultural and political qualities. Thus, it is more useful to follow the traditional line of historiography,[18] which talks of West Central Europe, which used to belong to the Holy Roman Empire; Eastern Europe, which belonged to the Russian Empire; and the Balkans and Central Europe, which is the eastern half of Roman Christianity, a sphere of parliamentary rule and religious freedom. The latter region has a long history of centralized rule, in multinational empires until the First World War and thereafter in the multi-national but theoretically "nation"-states created by the Paris Treaties of 1919-1920.

For the purposes of this paper, it is vital to sustain this delineation, since generalizations across three dozen (largely newly established) countries are by definition of limited value and have a tendency to conceal more than they enlighten.[19] Here, we confine ourselves to the Central European region, exemplified by Hungary. True, Poland, Slovakia, and the Czech Republic are largely different[20] and Hungarian developments have a very special flavor.[21] Still, Hungary is a suitable test case when comparing to others from the neighboring sub-region.

16 The USA has indeed witnessed a series of illiberal measures, especially in international trade during the Trump Administration, but also under the Obama Administration's fire-fighting of the Great Recession. But crisis-management measures, both in finance and trade, have tended to be revoked sooner rather than later.

17 For an extensive recent overview, see Günter Frankenberg, "Exploring the Topography of the Authoritarian: Populism, Illiberalism and Authoritarianism," *Journal of Illiberal Studies* 2, no. 1 (2022): 1-15, https://doi.org/10.53483/vdiu3531, and the literature cited therein.

18 Jenő Szűcs and Julianna Parti, "The Three Historical Regions of Europe: An Outline," *Acta Historica* 29, nos. 3-4 (1983): 131-184, https://doi.org/10.7829/j.ctv280b7g2.9.

19 cf. the similar arguments made by Aleksandr V. Gevorkyan, *Transition Economies: Transformation, Development and Society in Eastern Europe and the Former Soviet Union* (Abingdon: Routledge, 2018).

20 Due to a number of factors, Poland has traveled a path only partially parallel to that of Hungary. Czechia, with its peculiar political structure, is also a different ball game, as is the big success story of transition, Slovakia, which has surprised most external observers with its lasting success (exemplified by its introduction of the single currency as early as 2009).

21 Peter Krekó, "The Birth of an Illiberal Informational Autocracy in Europe: A Case Study on Hungary," *Journal of Illiberalism Studies* 2, no. 1 (2022): 55-72, https://doi.org/10.53483/wcjw3538.

In the case of Hungary, which could and perhaps should be elaborated in a separate article, we have yet to observe a full-fledged and formal reversal of the broad accomplishments of 1989-2010. Despite its efforts, the government has been unable to effect a complete U-turn either on economic policy or on the structure of international relations (specifically NATO and EU membership). Moreover, domestic politics—including media—has remained a contested arena, even if conditions continue to shift in favor of the governing coalition and its cronies. Thus, while we do observe regression in terms of economic and political freedoms, anchored in theory in EU and NATO membership, the Hungarian model cannot and should not be equated with those of Belarus and Russia (as Bálint Magyar and Bálint Madlovics do in their recent book).[22]

The reversal of pro-market and power-sharing arrangements is not exclusive to the Fidesz government. As could be documented in detail, first drifting, later pork-barrel politics, and not least efforts to dodge the spirit and often the letter of EU arrangements could be observed as early as 2005.[23] These processes received a new impetus from the changing of the guard in 2010, when the idea of creating a specifically Hungarian model for the polity and the economy—what a former member of the Constitutional Court calls a "revolutionary change"—gathered momentum.[24]

The period between 2009 and 2013 witnessed the rise of state interventionism across the globe—and particularly in Europe. We may recall the Greek bailout operations; the stand-by agreements of such European Union members as Spain, Romania, and Latvia with the so-called Troika (the IMF, the European Central Bank, and the EU); and then-President of the European Central Bank Mario Draghi's famous pledge in July 2012 to do "anything it takes" to save the single currency, but specifically the Eurozone's southern members, from falling into open insolvency. National governments from Paris to Berlin were not slow to bail out big banks and corporations, offer guarantees, and provide various forms of direct assistance to "the man on the street."

It is important to highlight that the Fidesz government has in no way emulated the practices of Germany or any other core EU nation. The commonalities end with its enhanced reliance on discretionary fiscal interventions, ad-hoc measures, and targeted intervention into economic and social processes, irrespective of rights, customs or legalistic considerations of any sort. "Quick decisions had to be taken," the contemporary slogan went—a claim that runs counter to the Hungarian proverb "Fast work is rarely of good quality."

A thorough overview of Hungarian economic policy is provided in the recently published monograph by István Benczes, a professor of world economy at Corvinus University of Budapest.[25] In what follows, I echo his line, unless specifics require arguments or facts from different or competing sources. Given the exhaustive nature of this monograph, I will generally refrain from citing the overwhelming amount of output, produced primarily by political scientists, that provides competing interpretations of the causes and nature of the illiberal turn, both within Hungary and in Central European perspective.

In October 2008 the Hungarian left-wing government was forced into a standoff with the IMF, which had created the typical kind of straitjacket from the point of

22 Bálint Magyar and Bálint Madlovics, *A Concise Field-Guide to Post-Communist Regimes: Actors, Institutions and Dynamics* (Budapest: Central European University Press, 2022).

23 László Csaba, "And the First Shall Be the Last," *Hungarian Studies* 25, no. 2 (2021): 235-248, https://doi.org/10.1556/hstud.25.2011.2.6.

24 István Stumpf, "The Role of the Constitutional Court in the Constitutional Control of Legislation," in *Liber Amicorum Károly Bárd vol II: Constraints on Government and Criminal* Justice, ed. Petra Bárd (Budapest: L'Harmattan, 2022), 420-430.

25 István Benczes, *Gazdasági növekedés és versenyképesség—intázmányi perspektívában* (Budapest: Ludovika Egyetemi Kiadó, 2022), 155-246.

view of macroeconomic policies. The caretaking Bajnai government and the new Fidesz majority in 2010-2014 were thus both largely constrained in their room for maneuver. However, while Bajnai and Co. tried to use the situation to implement overdue adjustment measures, including systemic changes, the Fidesz movement built its popularity on rejecting anything coming from the extended arms of financial capital. Resisting whatever advice came from Brussels and freeing itself from the IMF was not merely a prestige project, but a vital substantive component of the policies of the second Orbán government.[26]

Following the agreement with the EU Commission in May 2013, unorthodoxy in economic decisions became the leitmotif of government's activities. These included the nationalization of private pension savings in order to manage public debt (in the range of 10 percent of GDP), taxing selected sectors, promoting national ownership in certain areas— primarily energy, banking, and the press—and a general reliance on ad-hoc interventions of both fiscal and regulatory nature.

The third Orbán government from 2014 to 2018 took advantage of favorable international conditions, including unilateral EU transfers (reaching about 4 percent of GDP annually), negative real rates of interest on global markets, a savings glut, and—last but not least—the recovery of European markets. By keeping the rate of investment high (close to 30 percent) and capitalizing on global price stability brought about by a variety of structural, expectational, and policy factors, the government could focus on its major priorities. This approach was summed up in the slogan "more than a change in government, but less than a change of regime." It included the further expansion of national champions in banking, trade, and the media, as well as building up what adherents called a "national middle class": an entrepreneurial cohort that would be both state-dependent and instrumental in serving governmental objectives. The most extreme example of the latter was the creation, in August 2018, of a huge pro-government media holding through donations by owners of their respective holdings.[27]

Unsurprisingly, therefore, in the view of supporters of the system, it was basically pork-barrel politics—rather than intellectual or moral considerations, arguments, or quality of governance—that yielded the election victory in 2018.[28] The promise was "more of the same." But this was not to be: the COVID-19 pandemic has changed the face of the world.

The third Fidesz government had already been on its way to further strengthening the executive and weakening the system of checks and balances. Centralization and the appointment of political trustees to positions of relevance had continued, in spheres ranging from cultural life to sports, from the foreign service to public and private media and universities. The fast and unstoppable spread of the pandemic unquestionably created an extreme situation—an emergency situation. However, as Zoltán Ádám and Iván Csaba explain in detail in their recent article, the administration was not slow to (mis)use the situation to make permanent the extraordinary measures that were introduced to respond to the exigencies created by the pandemic.[29] These include the suspension of most checks and balances and the subordination of the health care system and primary education as a whole to the Ministry of Interior.

In 2020 and 2021, most countries saw an increase in governmental activism and public assistance to ailing or complaining firms and sectors. What set Hungary apart was the way in which *the exception became the rule.* The formation of the Parliament

26 The first was a four-party coalition government of right-wing forces that was in office between 1998 and 2002.

27 B. Bordács, "Biztosítani kell a magyar sajtót és kultúrát! *Origo,"* November, 18, 2018.

28 András Lánczi, "The Renewed Social Contract: Hungary's Elections," *Hungarian Review* 8, no. 3 (2018).

29 Zoltán Ádám and Iván Csaba, "Populism Unrestrained: Policy Responses of the Orbán Regime to the Pandemic, 2020-2021," *European Policy Analysis* 8, no. 3 (2022): 1-20, https://doi.org/10.1002/epa2.1157.

in May 2022 started with its self-decapitation: in light of the war in neighboring Ukraine, it empowered the government to rule by decree. Whereas in most EU countries the fire-fighting measures that had been introduced in 2020 (and by no means only the obligation to wear masks in public places) tended to be withdrawn in 2021, in Hungary the "crisis-management measures" tended to solidify and governmental interventionism gathered momentum.

Most recently, the period preceding the April 2022 legislative elections witnessed a truly unprecedented spending spree. While the central bank has sustained strongly negative real rates of interest and many elements of quantitative easing—including the program to buy bonds—are still in place at the time of writing, the state's fiscal policy has become even more profligate. Even as GDP grew by 7.1 percent in 2021, according to preliminary data, the government deficit reached 6.8 percent and the public debt/GDP ratio hit 76.8 percent. This is a very long way from—in fact the opposite of—the proverbial Keynesian symmetry criterion, when years of expansion should close with a surplus.

In the last quarter of 2021 and the first quarter of 2022, the government embarked on an unprecedented series of investments, the thirteenth-month pension was paid, people raising children received one-off payments, and the civil service—and not just police and the military—received lavish wage increases. Net wages in the first half of 2022 grew by 15.4 percent, and in the first six months of the year, the deficit reached the sum earmarked for the full year.[30] In short, electoral policies played a big role in Fidesz winning its fourth consecutive election—again in a landslide that gave it the two-thirds majority necessary to make changes to the Constitution.

Thus have we reached the end of the road. While the government has gained a supermajority, sustaining its profligate policies has become impossible. Hungarian bonds are still selling on the money market, but the rate of return in July was over 10 percent, or four times that of the German Bund. The multiyear struggle with the EU overrule of law led to an Article 7 procedure in April 2022, and no money arrived from the EU coffers (except funds linked to commitments made in previous years) in 2021 and 2022. This represents a fundamental turn in the conditions of external funding, while domestic investment will have to be severely cut to re-balance the economy. As so frequently in history, political and economic rationality do not overlap, but work against each other, and not only in the short run.

Western Europe: Factors Sustaining Statism

Established economic analyses of Western Europe's lasting growth problem, going back at least four decades, tend to find the answer to this puzzle by making reouldced to structural problems and misaligned incentives.[31] This is often complemented by references to overregulation, neglect of capital markets, and misaligned incentives related to social value ouldcednd inherited administrative practices.[32] Such insights translate into calls for more rather than less deregulation; investment in research and development; appreciation for human capital and innovation, including the small-business sector; and streamlining state interventionism.

It goes without saying that these general insights apply to very different extents in different countries. Switzerland is different from Italy and its capitalism has little common with Sweden or Denmark for that matter. However, studies on countries with ouldcedesifficultiies highlight certain recurring shortcomings in line with the

30 Unless otherwise specified, all data on Hungary in this article come from the Central Statistical Office and National Bank of Hungary.

31 Anders Aslund and Simeon Djankov, *Europe's Growth Challenge* (Oxford: Oxford University Press, 2017).

32 Vito Tanzi, *Termites of the State: Why Complexity Leads to Inequality* (Cambridge: Cambridge University Press, 2018).

mainstream view summarized above.[33] These include: poor-quality educational systems, which translate to low innovative capacity; overregulation of the labor market; neglect of the small-business sector, especially the segment with the potential for innovation and job creation; the misdirection of fiscal resources in ways that do not follow the principle of highest return on investment; and low administrative efficiency. In short: *weak government with weak markets, or the inverse of the East Asian developmental state.*

In part of the social science literature, Western Europe is presented as a stronghold of "neoliberalism," however this (mostly derogatory) term is defined. Neoliberalism implies more deregulation and less state redistribution, along the lines preached (rather than practiced) by the Thatcher and Reagan Administrations in the 1980s. Yet claiming this—and resultant "reform fatigue"—to be at the root of the revival of statism in Western Europe is plainly wrong, as each of our country cases indicate.

The tendency to blame excessive neoliberalism, though widespread, is misguided, as we try to document by providing a snapshot of the major EU powers. The foremost proponent of free-market ideology, the United Kingdom, has actually left the EU. Brexit, as eloquently explained by Rudolf Adam, is hard to present as anything but a story of populism winning out over conventional economic and political rationality—a triumph of emotions over interests.[34] And contrary to the claims of the Brexiteers, Britain has not been transformed into a free-market society. Global Britain has yet to emerge, and with the Word Trade Organization system in shambles, this is not a near-term prospect. Within the UK, while Thatcherite slogans are back in vogue, this is discourse rather than reality. Leaving the single market has created a large number of obstacles to trade and free movement of people, as anyone with proper information could testify. In short, the outcome—at least in practice—has been less, not more, liberalism. The Boris Johnson government tended to be more populist than libertarian, open as it was to lobbying and factionalism, a reality the quality press was never slow to expose.

The major political and military power in Western Europe is France. This country has never been a stronghold of liberalism. Instead, the French economic model has always been an archetypal case of *dirigisme* and state interventionism.[35] While many reforms have taken place—induced not least by the requirements of the economic and monetary union in its various stages of deepening—state-centric economic policymaking has never ceased. The French state has always remained extensive and has continued to undertake one of the largest re-distributions in Europe and worldwide: this reached no less than 61.4 percent of GDP in the crisis year of 2020 before declining to 59.2 percent in 2021, compared to the EU average of 53 percent and 51.6 percent, respectively.[36] France has one of the lowest Gini coefficients of all OECD countries, at 32.4, compared to Germany's 31.7 and the UK's 35.1.

The French model has always heavily relied on state coordination, on picking winners, on protecting markets and managed trade. During the 2022 presidential election campaign, President Emmanuel Macron, the leading candidate of France's pro-European and economically liberal forces, advocated nationalizing electric energy production and fixing its price. The extreme left and the extreme right both adopted anti-market and anti-EU platforms that would have implied even more interventionism. Given that Macron's bloc won only 244 of 577 seats in the legislative elections of June 2022 (losing the absolute majority it had enjoyed in the previous session), the limits on any pro-market policies have been clearly drawn by the

33 Luigi Burroni, Emmanuele Pavolini, and Marino Regini, eds., *Mediterranean Capitalism Revisited: One Model, Different Trajectories* (Ithaca, NY: Cornell University Press, 2022).

34 Rudolf G. Adam, *Brexit: Causes and Consequences* (Cham: Springer International, 2020).

35 Frances M.B. Lynch, *The French Economy* (Newcastle-upon-Tyne: Agenda Publishing, 2021).

36 Eurostat, "Euro Indicators Overview," 2022, *EC.europa.eu/Eurostat/web/euro-indicators,* accessed November 10, 2022.

electorate. In short, previous efforts to introduce more market-oriented, privatizing reforms are no longer on the agenda, while dirigiste meddling in economic affairs is respectable again.

The largest and strongest economy in the EU is undoubtedly Germany. Here, the distance between discourse and reality has perhaps been the largest in the EU since the Kohl era. During that period, which culminated in the re-unification of the country, the preaching of ordo-liberalism co-existed with ever-increasing state redistribution and the proliferation of public regulation. The latter has occurred at a minimum of three levels—EU, federal, and Land/regional—and has been supplemented by local rules.

In the case of Germany, we have historically observed the co-existence of contrasting perspectives. In Germany, "industrial policy," a concept so close to the hearts of the French and the Italians, has always been anathema, especially for academic economists, but also for policymakers. Likewise, trade interventionism—including the much-debated practices of the Trump Administration, which relied on targeted excises and market protection to a point that bordered on trade wars—has never been seriously considered, despite European legislation being ambiguous and soft on this area.

Nevertheless, it would be wrong to portray Germany as a country of unbridled (ordo-) liberalism. Environmental and labor regulations abound, agricultural policy is highly interventionist, and higher education and research funding are disbursed according to highly centralized procedures (even if regions have budgetary control over their local institutions). The welfare state has historically been extensive, and collective bargaining is decisive for labor markets. The process of re-unification has led to a large number of complex and politically motivated redistributive measures, including support for the weaker East and some North German provinces (*Finanzausgeich*). The coalition governments that have held power are natural hotbeds for lobby-based bargains on many issues, and not only those related to the economy. The selection of the President of the European Commission in 2019 via an informal bargain—rather than the formal procedure of *Spitzenkandidaten*—is just one well-publicized case of such deals.

In all, Germany has a peculiar mixture of market and nonmarket arrangements. The impact of the former on shaping the principles is great, while the imprint of the latter on practical arrangements, especially ones influencing the lifestyles of millions, is also undeniable. The latter clearly reflect the conditions of mass democracy and informational society. Visibility and popularity play major roles in determining what is politically feasible, irrespective of economic or other academic considerations. The perceptible trend away from both traditional conservative values and parties with green-leftist tendencies has yielded arrangements where liberal values tend to be preached rather than practiced. The more we think about, say, the European Green Deal, with its quantitative targets for emissions reduction and phasing out carbon-based energy resources, the more dominant this line becomes.

We could go on to discuss the experiences of many other countries, but space restrictions militate against it. In brief, Italy, Spain, Austria, and Belgium would be numbered among statist models, while Latvia, Lithuania, and Estonia would serve as counterexamples. Thus, without further ado, let us turn to the issue—highly contested in the literature—of whether, and to what degree, the European Union as a supra-national regulatory community is influencing the trend toward illiberalism.

The answer is, in one sense, an unqualified yes. Most Community policies are openly illiberal and top-down, following the old Franco-German administrative tradition, referring usually to different special and general sectoral principles. But top-down planning, quantitative targets, and mandatory implementation are the rule, not the exception. Studies of the Common Agricultural Policy, as well as of common technology policy, of environmental protection, and of common defense have not managed to quantify how these initiatives have influenced the competitiveness of core Europe over the past three decades.

A considerable part of the literature is of the opinion that it is not the above policies that are to be blamed.[37] Rather, these scholars claim, it is the construction of the Economic and Monetary Union (EMU) that is at fault. In their interpretation, the straitjacket created by the EMU has been positively harmful, particularly for the weaker, Southern economies, forcing them in part into unnecessary austerity and in part into lasting stagnation of output and sub-optimal levels of employment.

In our view, this perspective is hard to square with the facts. Traditionally backward nations—like Ireland, Slovakia, and the Baltics—have shown a remarkable ability to catch up over the past three decades. By contrast, traditionally advanced countries—like Belgium, France, and the formerly rapidly converging Greece and Spain—have faltered. Quantitative comparative studies of EU membership consider the Union a lasting "growth machine."[38]

This line of thought is congruent with the conventional wisdom. Accordingly, being part of a large market is growth-enhancing. Being part of a currency union brings stability and is welfare-enhancing, due not least to the enhanced competition that arises from the comparability of prices and lack of transaction costs, two factors that are particularly strong in the case of the EU.

The longer the time horizon we look at, the more indirect and hard-to-quantify factors gain in significance. These include the impact of continuous importation of technology and management knowledge, two factors unconditionally appreciated by any academic theory of growth. The stronger are interfirm relations, the stronger are components of microeconomic integration, which do not require governmental meddling in their conduct, and the more palpable is their impact on the economic well-being of citizens and countries alike.

Likewise, the more we think *longue durée,* the more likely we are to appreciate the role of institutional convergence. While nobody is advocating the unification of economic systems, it goes without saying that upgrading the quality of local institutions in line with those of the advanced economies is a factor of lasting convergence. In a way, less advanced nations may free-ride on the experience of more advanced ones, saving themselves the laborious and costly process of trial and error that would be involved in finding the most suitable option for themselves.

These insights are not quite novel. Studies of economic convergence in Europe have pointed to largely similar trends for the past two centuries.[39] Countries that have been able to adopt successful solutions to the challenges of modernization, and also join in the process of globalization, have tended to benefit. Conversely, when torn out of these processes—whether due to interwar economic nationalism or membership in the Soviet Empire—"autochthonous" development has invariably proven to be less efficient and less competitive.[40]

While acknowledging that our brief discussion of core Europe could—and perhaps should—be expanded and complemented with detail, its conclusion is

37 José Magone, Brigid Laffan, and Christian Schweiger, eds., *Core-Periphery Relations in the European Union: Power and Conflict in a Dualist Political Economy* (Abingdon- New York: Routledge, 2016); Ashoka Mody, *Eurotragedy: A Drama in Nine Acts* (Oxford: Oxford University Press, 2018).

38 Michael Landesmann and István P. Székely, eds., *Does EU Membership Facilitate Convergence? The Experience of the EU's Eastern Enlargement, vols I and II* (Cham: Palgrave Macmillan, 2021).

39 Ivan T. Berend, *Economic History of a Divided Europe: Four Diverse Regions in an Integrating Continent* (Abingdon: Routledge, 2020).

40 Matthias Morys, *The Economic History of Central, Eastern and South-East Europe: 1800 to the Present* (Abingdon: Routledge, 2021).

straightforward. There has been a demonstrable trend toward neo-illiberalism at both the national and Community levels—and this is among the factors that explain the relative decline of core Europe compared to the US and East Asia.

The Illiberal Asian Giants Do Catch Up

The developmental state has long been singled out as an alternative to market-based mainstream thinking on development, and we have already cited recent collective volumes reflecting on the subject. From our perspective of neo-illiberalism, the real challenge is not this—since any rule tends to have exceptions—but the experiences of India and the People's Republic of China, with their stellar and sustained growth in the first two decades of the millennium, until the global external shock of COVID-19 marked the beginning of a new era.

The progress of the two giants is best demonstrated by the fact that their progress alone has more or less halved global poverty—which was among the most important Millennium Developmental Goals. Globally, the number of people living in poverty declined from 1.93 billion in 1990 to 696 million in 2017—or from 35.9 percent to 9.3 percent of the population. The poverty rate increased due to the pandemic, rising from six percent in 2017 to 10 percent in 2021. In the case of China, official data claim that poverty—defined as the number of people living on less than $1.90 per day—was eradicated in 2015, while just 15.8 percent of the population were living below the more stringent $5.50 standard in 2019 (before the pandemic), according to World Bank data.[41]

However, more detailed studies underscore two paradoxes via detailed field studies.[42] The first is the significant *growth of inequality,* which in the case of China is now on a par with the US, with a Gini coefficient in the range of 41. The second is the fact that both India and China are characterized by very *limited social mobility*: family/starting positions have a decisive impact on an individual's later position on the income ladder. Both features are known to contribute to social tensions in different socio-economic contexts.

Despite all the conceivable and legitimate criticism leveled against both countries, it goes without saying that their growth performance in the first two decades of the new millennium was impressive. The upgrading of economic structures, which has yet to take place in most of Latin America and Africa, has marched on: both China and India have become post-industrial service economies. While China is the globe's largest exporter, having overtaken countries like Germany and the US, India has become a large service center and agricultural exporter. Both countries seem to have defied the pessimism of development economists of the 1950s and 1960s.

One of the many paradoxes of the two countries has been the fact that their catchup is usually attributed, in the economic literature,[43] to the liberalizing policies of 1978–2012 in China and 1986–2014 in India. The conventional wisdom holds that abolishing various forms of command and control, coupled with opening up to the external world, combine to explain both success stories.

Without attempting to produce new country studies in a section of this comparative and theory-driven paper, let us recall a few points from the literature that cut against the conventional wisdom. First, in the case of China, ever since President Xi Jinping's accession to power in 2012, political and economic centralization has prevailed over the previous practice of informal pluralism within a single-party system. Following the COVID-19 outbreak in Wuhan in 2019 and again from 2022, China's zero-

41 World Bank, "Databank," www.worldbank.databank.com.

42 Carlos Gradín, Murray Leibbrandt, and Finn Tarp, eds., *Inequality in the Developing World* (Oxford: Oxford University Press, 2021).

43 This is in stark contrast to the various conceptualizations of neo-illiberalism as explained at the beginning of this paper.

tolerance policy has compounded a process that started much earlier: the *slowing-down of the economy*. GDP growth peaked in 2011 at 9.5 percent, declined to 2.2 percent in 2019, and since seems to have stabilized around 5 percent. Indian growth has oscillated between 5.2 and 8.3 percent in the past decade, declining to 6.5 percent during Covid in 2021 and recovering to 8.5 percent in 2022. But the big puzzle is that this was largely due to state interventionism, coupled with directed tax cuts by the rightist Modi administration.

Part of the answer is self-explanatory: in countries at lower levels of development, *structural factors*—like high investment, import of technology, and moving people from low-productivity sectors to high-productivity ones—allow for relatively long periods of growth. Moreover, the more countries *invest in human capital,* as both China and India (but not sub-Saharan Africa) have done, the room for approximating the technological frontier expands, while the possibility of combining incremental innovation with local initiatives and letting the commercial spirit loose allow for additional growth generation. *Foreign direct investment* in both countries has tended to be relevant to structural upgrading and growth-promoting rather than flowing to the resource sector alone, as it does in Latin America and Africa.

The open global trade regime—combined with historically low interest rates for borrowing, as well as the revolution in information technology—have opened up opportunities for latecomers, opportunities that both countries have been quick to capitalize on. Political stability and commitment to the basics, if not the minutiae, of a market order have also been helpful, giving China and India an edge over Africa and Latin America.

What, then, has been the major *difference between these two statist, illiberal models* of catching up over the past three decades? The answer might be a long list of factors and circumstances. However, if we stay at the level of abstraction customary for comparative research into economic systems, we may provide a simple but telling answer. For China, the pre-eminence of public versus private property has never been in question. Official Chinese academic authors, including Lin and Zhao,[44] talk about the relevance of nonstate property within the framework of a socialist market economy. Thus, real private ownership is an exception, a subordinate phenomenon.

By contrast, India is notorious for its propensity toward over-regulation and state meddling in the economy. However, the financial sector has never been fully nationalized, nor has the trade and housing sector. In short*, India has been a state-managed economy based on the predominance of private property*. State priorities have tended to be enforced by regulation rather than nationalization.

In recent years, and especially in the course of COVID-related crisis management, these features have only been strengthened. In China, state involvement in a variety of activities—through controls introduced with reference to health risks—has prevailed and proliferated. By contrast, in India, cronyism—i.e., the picking of private winners—has been strengthened, from the purchase of vaccines to the allocation of preferential resources. This has been in line with the established approach of the Modi Administration.[45]

What, if anything, is to be learned from these contrasting experiences? Perhaps we come back to the traditional dualism of *path-dependency and path-creation*. In the case of China, it is hard to overlook 3,000 years of authoritarian heritage, coupled with the country's experience of regional decentralization. By contrast, India was not a united country until the period of the British Raj (1858–1947), even if state-centered civilizations existed for comparable lengths of time. Following British rule, the single largest displacement of persons in the twentieth century took place, to

44 Lin, *Beating the Odds*; Zhao, *China Economic Transition Research, https://doi.org/10.23943/princeton/9780691192338.001.0001*.

45 Josy Joseph, *How to Subvert a Democracy: Inside India's Deep State* (London: Hurst Publishers, 2022).

and from what are now Pakistan and Bangladesh, with 17 million people forcibly resettled. Myanmar and Sri Lanka, which were also parts of the Raj, took a different road following independence. Today, India is a federal country composed of 32 states—with their own languages, cultures, and self-government—under the Delhi Administration. In short, India is more fit to be a market than anything else.

But we can and do observe the role of policy choices. Between 1947 and 1991, India pursued import-substitution and a closed-door policy. By contrast, since 1978, China has never ceased to open, albeit with changing emphases. In post-2014 India and post-2019 China, the trend toward centralization has been a political choice, not an exigency.

We must also note that while a large portion of the literature attributes the high growth rates and ensuing poverty reduction in both countries to their neo-illiberalism,[46] this interpretation appears questionable. In line with established theories of growth, countries graduating to a higher level of development may have—but are by no means doomed to—slower rates of growth, unless major institutional reforms, technology imports, and innovation allow higher rates to be sustained. As we have seen in the case of China, the consensus growth forecast is in the range of 5 percent, while for India the figure is around 7 percent (according to government estimates). Both numbers are way below the trend for the preceding decade, COVID years excluded.

The slowdown can be attributed to a series of interacting factors. First, demography is not working in favor of either country: birth rates are far below the replacement level, making aging a major concern. Second, the financial sectors in both countries continue to be repressed, immediately limiting allocational efficiency. Third, governmental interventionism—in terms of petty meddling in the conduct of economic affairs at the firm level—is demonstrably present in both countries. Fourth, there are imminent limitations on their ability to sustain high investment. In the case of India, fixed capital formation peaked in 2011 at 35 percent before declining to 28 percent by 2021. In the case of China, gross fixed capital formation peaked in 2013 at 45 percent of GDP before declining to 42 percent in 2020. Note that the latter is still a very high figure globally (the OECD average for rich countries is around 20 percent), which is a clear sign of a low level of allocational efficiency and foreshadows a further slowdown, unless the financial system is radically restructured, of which there is as yet no sign.[47]

In short, the neo-illiberal model, which seem to have worked under special circumstances in past decades, shows signs of ebbing. While it would be naive to attribute a growth-maximizing attitude to the Chinese and Indian governments, it is also straightforward that a slowdown in the growth of the pie is likely to have ramifications for administrations whose major legitimating principle is improving the wellbeing of the population.

Summary and the Way Ahead

In this paper, I have conducted a comparative analysis of three models of neo-illiberalism that have been present in the twenty-first century and do not follow in an immediate and pre-ordained fashion from historical antecedents. True, illiberalism has existed throughout the two centuries of modern capitalist development across the globe. However, what we term here "neo-illiberalism" has emerged in quite diverse regions where the preceding decades were shaped by attempts to improve economic policies through stabilization, liberalization, institution-building, and privatization (SLIP). This was indeed the agenda of the old Washington Consensus, as well as

46 In the case of China the large role of market coordination and nonstate property, and in the case of India the pre-eminence of private property and of Trump-like nationalist, targeted pro-business policies under Modi, justify the use of this term.

47 World Bank, "Databank," www.databank.worldbank.org.

the less explicit, but more powerful, policy experience of the Great Moderation in the OECD. Two decades of liberalism have been followed by two decades of neo-illiberalism. What makes the trend particularly remarkable that it shows up in regions with vastly different cultural backgrounds and equally dissimilar levels of development and economic structures.

In trying to decipher the puzzle, we rely on the large body of literature on populism and authoritarianism. The observation of the rise of illiberal democracy is now a quarter-century old.[48] This trend is explained, first and foremost, by social re-stratification in the age of informational revolution and globalization that has weakened the traditional middle classes, as well as, in part, by changes in the set of values shared by a large—though not yet predominant—part of modern market-based societies at various levels of development.

Second, crisis management has proven to be more complex and less efficient than postulated in most of the economic literature. In core Europe, in particular, the commitment to protecting workplaces and an unwillingness to adopt new technologies or ways of conducting business—a general *status-quo bias*—seems to preempt any major initiative to change. In the Asian giants, the clear political implications of pro-market and generally liberalizing economic change, much advocated by local and international expert groups, lie at the heart of regress. And in Central Europe, the reaction to what has been presented as an unfair and unjust outcome of systemic changes and Europeanization explains, to a large degree, the relapse to old practices of rule. In a way, we are back to the classical dilemma identified by Karl Polányi, where conflictual relations between the market economy and democratic society[49] lead to oscillations between various forms of governance. Neo-illiberalism, as defined early in this paper, has undoubtedly emerged as a previously unseen mode of governance that has taken on a distinct form in each of the three models discussed.

Third, materialistic explanations for this outcome are accurate, but only in part. As we have seen, while poverty has decreased, global inequality has increased.[50] This is a classic case where, when there is more to be redistributed, calls for this intensify and penetrate the political sphere. This time, in two of the three cases, it is right-wing nationalist governments that are managing the process. This adds the "neo" to illiberalism, which never truly disappeared from most of the globe.

Fourth, the comparative approach to the three cases justifies the use of the term "neo-illiberalism." While the methods and arguments in support of the policy options are by no means new, the context of globalization and changes in the value system of societies—immediately transmitted by social media and the internet in general—are indeed novel and offer a powerful new explanation for the surprising turns of events in the twenty-first century.

48 Fareed Zakaria, "The Rise of Illiberal Democracy," *Foreign Affairs* 76, no. 6 (1997): 22-43, https://doi.org/10.2307/20048274.

49 Iván Szelényi, *From State Socialism to Post-Communist Capitalism: Critical Perspectives* (Wiesbaden: Harrassowitz Verlag, 2022), 287-309.

50 Olle Hammar and Daniel Waldenström, "Global Earnings Inequality," *Economic Journal* 130 (632) (November 2020): 2526-2545, https://doi.org/10.1093/ej/ueaa109.