IT IS now 25 years since Francis Fukuyama published “The End of History?” and ignited a firestorm of debate. Today there are many reasons for thinking that he was wrong about the universal triumph of liberalism and markets, from democracy’s failure in the Middle East to the revival of religious fundamentalism. But one of the most surprising reasons is the continuing power of the state as an economic actor: far from retiring from the business battlefield in 1989, the state merely regrouped for another advance.

Survey the battlefield today and you can see state capitalism almost everywhere. In China companies in which the state is a majority shareholder account for 60% of stockmarket capitalisation. In Russia and Brazil companies in which the state has either a majority or a significant minority stake account for 30-40% of capitalisation. Even in such bastions of economic orthodoxy as Sweden and the Netherlands state-owned enterprises (SOEs) account for 5% of market capitalisation. The Chinese and Russian governments show little sign of wanting to surrender control of the commanding heights of the economy. Privatisation seems to have ground to a halt in Brazil and in India (though its new government may revive it). There has been talk of the French government taking a stake in Alstom or part of its business—adding to the stakes it and Germany hold in Airbus and the one France recently took in Peugeot.

What should one make of the revival of state capitalism? Opinions vary wildly. Some praise it as a superior form of capitalism while others treat it as a mere way-station on the road to proper capitalism. One of its most ardent proponents, Vladimir Putin of Russia, somehow keeps a straight face when claiming there is no state capitalism in his country. Some see SOEs as money pits whereas others think they are pretty good investments: Morgan Stanley, a bank, reckons that, together, shares in listed SOEs in Europe, the Middle East, Africa and Latin America did better than stockmarkets as a whole between 2001 and 2012.
“Reinventing State Capitalism”, a new book by Aldo Musacchio of Harvard Business School and Sergio Lazzarini of Insper, a Brazilian university, sheds fresh light on the question. It notes that the old model of Leviathan-as-entrepreneur, in which the state owned companies outright and ran them by ministerial diktat, was largely swept aside by the privatisation wave of the 1980s and 1990s, when governments realised that they could make money out of their companies rather than constantly bailing them out. But instead of swimming off into the blue ocean Leviathan reappeared in three disguises—as a majority or minority shareholder and as an indirect investor.

In the first form, which is particularly popular in China, the state submits an SOE to the governance standards and investor scrutiny that come with a stockmarket listing while retaining the bulk of the shares. In the second, which accounts for about half of SOEs, the state retains just enough influence, through its minority stake, to swing some important decisions. In the third, the state seeks to invest in companies—including ones not previously government-linked—through public development banks (of which there are currently 286 in 117 countries), sovereign-wealth funds, pension funds and other vehicles. For instance, India's Life Insurance Corporation is the largest stockmarket investor in the country, with about $50 billion invested as of September 2011.

How successful has Leviathan been in these new incarnations? Messrs Musacchio and Lazzarini go out of their way to be fair. They point out that new-style SOEs more closely resemble true private-sector firms than old-fashioned nationalised industries: they are run by businesspeople not political hacks, and no longer have bloated workforces. The authors argue that good governance can overcome the classic problems of state ownership: Statoil of Norway is one of the world’s best-run firms. And they observe that Leviathan can also bring benefits to the private sector: for example, it can provide long-term investment in countries that have shallow or dysfunctional capital markets.

But the authors nevertheless produce a lot of evidence that the new Leviathan retains some of the old one’s weaknesses. This is especially clear in Brazil, where two successive presidents from the Workers' Party (PT), Luiz Inácio Lula da Silva and Dilma Rousseff, have trampled on other shareholders’ rights in the name of the national interest. The government leant on Petrobras, the national oil company, to withdraw plans to raise the price of petrol in line with world prices. It engineered the removal of Roger Agnelli as boss of Vale, a privatised mining giant in which the national development bank, the BNDES, still owns a chunk, because it did not like his emphasis on exporting iron ore to China instead of building steel mills at home. This rise in interventionism has come just as the BNDES is losing its raison d’être because of the deepening of domestic capital markets. Messrs Musacchio and Lazzarini demonstrate that under the PT the bank has got into the habit of lending money to already successful businesses that could easily have raised it from the markets—companies that, by the by, are also generous contributors to political campaigns.

The importance of timing

The implication of all this is not so much that Mr Fukuyama was wrong about the market in 1989
but that he was premature. The development of state capitalism over subsequent years has undoubtedly been extraordinary. But there are good reasons for still hoping that it is a way-station to a more fully private economy, not a new form of capitalism. The best SOEs have demonstrated that they can thrive without the guiding hand of the state—and the worst have proved that, however many market disciplines you impose upon them, they will still find a way of turning state capitalism into its ugly sister, crony capitalism.


From the print edition: Business