What is the Relation of Markets, Property, and Freedom in the Liberal Script?

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Since the Soviet experiment has failed in its attempt to replace markets and private ownership of the means of production with a centrally planned, state-owned economy, modern authoritarian regimes usually incorporate markets and property rights. What distinguishes them from liberal capitalisms in all its varieties is whether state regulations and interventions rest on the undividable "rule of law" as a normative guideline binding on both the rulers and the ruled.

WHY DO WE HAVE TO TALK ABOUT MORE THAN JUST PROPERTY RIGHTS AND MARKETS?

In line with Karl Marx, the French economic historian Fernand Braudel (1982) draws a clear distinction between market economy and capitalism. Capitalism is a regime of capital accumulation seeking and keeping extra profits and creating power asymmetries, while market economy is the mechanism to level down profits through competition of the many on equal terms. Capitalism does not need liberalism or democracy because it does not necessarily need an "open access order" (Wallis et al. 2009), which is indispensable for a full-fledged market economy. Of course, open access to entry markets is a normative ideal. Yet, in a market economy, closures should only be temporary or restricted through economic and political mechanisms in certain segments (e.g. in mature markets with established leading firms or natural monopolies; security issues). In the early stage of capitalism, capitalist accumulation existed without (national) market economies (*Volkswirtschaft*). Markets were limited to local marketplaces. It was only during the industrial revolution in the 19th century that national market economies emerged in what Max Weber referred to as *betriebsförmiger Kapitalismus* (capitalism by "the method of enterprise", Weber 2003 [1927]: 275), or what Karl Marx called the “capitalist mode of production” (Marx 1979 [1867]; Polanyi 2001 [1944]). Only then and very slowly did a liberal version of capitalism become more or less effectively embedded in democratic institutions.

Weber distinguished modern capitalism from political capitalism or, in his words, from pre-rationalist *Abenteurer- und Raubkapitalismus* (“adventure and booty capitalism”, Weber 2005 [1922]: 1048). Today we also differentiate between various forms of modern capitalism. For instance, terms such as state capitalism, patrimonial, oligarchic, or even mafia capitalism describe authoritarian regimes that use and integrate markets and property rights in different ways (Magyar/Madlovics 2020; Sallai/Schnyder 2020; Spechler et al. 2017). With regard to the globalization of financial markets in the 1980s, significant changes in the mode of capital accumulation have been discussed as “casino capitalism” (Strange 1987) and, more recently, “digital” or “platform capitalism” (Srnicek 2017). To be distinguished from this is a less critical, rather more empirical-analytical literature on “varieties of capitalism” (VoC, Hall and Soskice 2000). This literature very prominently reflects the various configurations of complementary institutions of OECD-market economies in liberal-democratic settings. The VoC approach centres around the way market actors are coordinated. If direct, strategic market coordination upfront is a characteristic feature, Hall and Soskice speak of “coordinated market economy” (CMEs), with Germany and Japan in the second half of the 20th century as classic examples. In contrast, “liberal market economies” (LMEs) are characterized by “arm’s-length” market coordination where competition shapes economic interaction (and lobbying the relationship to the state; e.g. the US and UK), while large corporations seek to dominate certain market segments. The VoC approach quickly provoked criticism. One critique is that it underestimated the intervening and coordinating role of the state in both versions of advanced capitalism and democracies. Only recently, Marianna Mazzucato (2013) has stressed that the US never gave up acting as an “entrepreneurial state”, continuously using its innovation policy and state funding, often closely related to the military, to create new markets, even in the heyday of neoliberalism. She argues, in other words, that one has to reconsider the importance of the state and public spending for the productivity of a market economy, which a narrow economic liberalism, however, denies by seeing markets as the only effective allocation mechanism.

What the VoC approach innovatively systematizes is the varying role of the banking and financial sector in LMEs and CMEs and its intersection with labour relations and the welfare state. Josef A. Schumpeter (2016: 139) already argued that credit is essential to the functioning of capitalism, although it is not part of its definition in a narrow sense. With the financial system as essential precondition to ongoing capital accumulation, the (nation) state does indeed have strong leverage: stimulation and regulation of credit supply by its Central Bank, as well as government bonds to allow investments by the state (which is not part of Schumpeter's original theory). The state therefore not only guarantees property rights and economic freedom, it also permanently (and increasingly) restricts property rights and economic freedom through all kinds of regulations and licensing. It actually enables ever new collaborations and opportunities for capital accumulation through public investments with high economic risk (including welfare-state investments). This creates a permanent tension with basic liberal values.

At this point, it becomes clear how important it is to theorize the foundational aspects and changes in the liberal script within various historical contexts. It is indeed crucial to meticulously examine the interdependence and conflicts between market and capitalism, as well as the relationship between market, state, and democracy, and this eventually points to the more general relationship between the economy and politics as part of the liberal script. In the liberal script, economic freedom relies on the relative autonomy of the economic sphere vis-á-vis the political system. But even in liberal democracies, the economy cannot define and ensure its own rules of the game (North 1990). Rather, these rules are shaped and structured by state action as a result of political decisions. What is decisive for an open-access order, or modern market economy, is that the rule of law and democratic competition not only guarantee property rights but also constrain the reach of politics in a legitimate way.

The history of capitalist authoritarian regimes includes neoliberal, market-oriented dictatorships with guarantied property rights and economic freedom (Chile under Pinochet) or, more frequently, state intervention in markets for political, societal or other goals. Authoritarian state intervention can indeed guarantee property rights to a large extent or it can make ownership conditional and insecure. The subordination of the economy to politics can appear as mere rent-seeking by oligarchically structured elites or as a strategy for pursuing national interests and development goals for a broader population. Often different motives are combined, as economic growth also increases the private profits of an expropriating elite. In all variants, however, the modern, non-market-liberal, authoritarian economic script includes state capitalist elements combined with private entrepreneurship, some property rights, and even neoliberal elements (such as market-like incentives in the public sector). But without a rule of law, however imperfect it may be, state intervention in an authoritarian political regime can hardly be challenged - at least not within public channels - as there is no independent legal system binding both the ruled and the rulers.

ILLIBERAL-CONSERVATIVE TURN IN POLAND AND HUNGARY

The illiberal-conservative turn in Poland and Hungary is often regarded as "backsliding" due to deficits in political culture and authoritarian (communist) legacies. Yet, the turn is closely linked to the perceived semi-peripheral position in the European Union and the manner in which the countries were integrated into the Western value chains after 1990. Not accidentally, Polish PiS-politicians embraced the critical term of a "dependent market economy" (Nölke/Fliegenhardt 2009) to criticize the high degree of transnationalisation in many sectors, the resulting labour-cost pressure, and the reversion of profits back to (western) headquarters (Jasieski 2019; Bluhm/Varga 2020). Major goals of the new illiberal conservatives were the reduction of the extraordinarily high market share of foreign banks in the banking sector ("financial nationalism"), the re-nationalization of certain industries (especially media, and in Hungary the construction sector), and the expansion of the economic base through state projects with the aim of reducing dependence on Western (mainly German) multinational corporations (without "kicking them out", of course). Still, the PiS is still threatening voters in the election campaign 2023 by arguing that without the national-conservative party, large German corporations would continue buying up Polish companies.

In social terms, the illiberal-conservative turn is about creating a national bourgeoisie (Scheiring 2020) and supporting the families of the national "majority" (in the case of Poland with more redistributive tools than in Hungary; Kalb 2018). In cultural terms, the illiberal turn targets the universalist principles of human rights (e.g. the protection of migrant and LGBTQ minorities) which are seen as challenges to national identity as well as instruments of Western European dominance (Kováts 2021). To reach these goals, Orbán's FIDESZ and the Kaczyński brothers' PiS parties considered diminishing the independence of the legal system and gaining state control over civil society and mass media to be crucial, seeing in these unnecessary veto-players against the "good intentions" of the executive. All the measures taken in the paradigmatic shift aimed to (partially) correct the "unjust" results of the peaceful power transition at the end of the 1980s and the subsequent privatization in which "the wrong people got rich" (Bluhm/ Varga 2019). They have resonated in a stable electorate base, allowing FIDESZ and PiS to stay in power for so long.

All things considered, Poland and Hungary are not yet full-fledged authoritarian regimes. Property rights and entrepreneurial freedom are widely guaranteed, even if companies close to PiS and especially FIDESZ enjoy new privileges. Yet the nationalist agenda and the perceived need to change the functioning of the post-socialist market economy have set in motion a process to free the executive from political and judicial constraints.

RUSSIA: FROM LIBERAL OLIGARCHIC STATE CAPITALISM TO A WARFARE STATE

The aim of Putin's first-term government (from 2000 to 2004) was to accomplish the liberal reforms that got stuck during the 1990s, by means of strong vertical power and a greater share of the state revenues from the export of natural resources. Russian "traditional values" did not yet seem to contradict the "universal principles of market economy and democracy" (Putin 1999). They also seemed to be perfectly compatible with a residual liberal welfare state that provided a safety net only for those in need, with limited wealth redistribution. The state was supposed to focus on developing human capital for a post-Industrial society while minimizing its interference in the economy.

However, the imprint of the state grew consistently after the new state rulers took control over the energy sector, reorganizing the oligarchic ownership structure that emerged from privatization during the 1990s (Weinthal/ Luong 2006; Abramov et al. 2018; Viktorov/ Abramov 2021). The "Yukos affair" starting in 2003 was a significant experience for business (Sakwa 2014), showing that the announced "dictatorship of law" had little to do with the rule of law that should have protected Mikhail Khodorkovsky's property and life, although most of the Russian population and parts of the elite regarded this ownership as illegitimate (Yakovlev 2006). Since then, property rights are dependent on loyalty to the increasingly authoritarian regime and the protective patronage networks (Firestone 2008; Markus 2015).

There have been several attempts to privatize large state corporations and state-owned banks but as external and internal pressures mounted, the hybrid state sector – consisting of state-owned, semistate and large private companies with close ties to the Kremlin – became even more crucial to securing political and social stability. Simultaneously, the dispute continued in elite circles over how Russia should overcome the federal states' dependence on oil and gas exports that had deepened during Putin's rule (Yakovlev 2014; Bluhm/Varga 2020; Matveev/Shuvlev 2023).

It is true that at the beginning of the full-scale invasion in Ukraine, Putin did call "market economy and free entrepreneurship" crucial for Russia's "economic sovereignty" (Putin 2022, 2023). He also rejected any inflationary "money printing" to finance the war, as well as a complete shift towards a classic war economy. Despite his denials, elements of a war economy have emerged with a higher degree of coordination between business and government, new pressure on the hybrid sector to contribute to the war with their revenues, new Keynesian-like investments, indirect "money printing", and massive social expenditures for the drafted and contracted soldiers and their families. This is combined with a further radicalized ideological war with "the West" in which the "traditional values" of Russian civilization are now framed as anti-Western to the core – despite similar values being observed in Hungary, Poland, and among right-wing populists and nationalists in Western Europe and the US when it comes to issues of migration, gender, and universal human rights.

In 2023, Oleg Deripaska, former Yeltsin oligarch and owner of one of the largest industrial conglomerates in Russia, publicly urged Putin to cut back the "visible hand of the state" by halving the federal state and security apparatus and to get rid of the "chimeras of harmful state capitalism"[1].

1 „Deripaska predložil v dva raza sokratit' čislo činovnikov i silovikov," Kommersant, 02.03.2023, www.kommersant.ru/doc/5844735, see also „Oleg Deripaska: „Great total disruption", 30.12.2022, www.stolypin.institute/publications/novosti/oleg-deripaska-great-total-disruption.

Otherwise, he says, Russia's economy cannot adjust to the new geopolitical realities and deal with the complicated Asian markets. Deripaska's argument is quite reasonable in the light of the past: War economies had been a trigger for greater centralization, bureaucratization, and the development of welfare states. This can be observed in the aftermath of World War I and II. They contributed to the rise of "organized capitalism" in the West (until the neoliberal turn in the 1980s) and inspired the planned economy of the Soviet Union (Harrison 2017; Asschenfeldt/ Trecker 2023). However, it is highly questionable whether Russia's current war will reproduce those conditions for a "third great transformation" post-1989 that Deripaska hopes for. Despite recent attempts of the Russian government to promote small and medium-sized companies with state programs, Deripaska's request implies an almost revolutionary regime change. Otherwise, drastic cutbacks in the federal state and security apparatus that have grown during Putin's rule without democratic control remain illusionary.

CONCLUSION

Although market, property, and (economic) freedom are essential in the liberal script, they are too abstract to determine the nature of an economic regime type, nor do they allow any conclusions to be drawn about the political system. First, they are not only a matter of guarantee but are always also subject to limitations and restrictions imposed by the state. Second, they face challenges from monopolistic or destructive capitalist dynamics time and again that require state intervention and decisions made through representative democracy. Third, markets, property rights, and economic freedom are not completely absent in many modern versions of state capitalism in authoritarian settings but vary in their "conditionality". The key factor lies in the existence of a rule of law that regulates the interactions between the economic and political spheres. This rule of law can only be effective in protecting market, property, and economic freedom rights if it binds both sides in a democratic setting – the ruled and the rulers.

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