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Mark Thatcher

The reshaping of economic markets and the state

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The Reshaping of Economic Markets and the State

Economic Crisis and State Changes

Mark Thatcher

The relationship between the state and economic markets lies at the heart of debates about the power and role and indeed nature of the state in capitalist societies. In an era of strong neoliberal rhetoric about 'rolling back the state', 'cutting red tape', and 'freeing markets', it is too easy to lose sight of the fact that views of the state's role have evolved over time in comparative political economy, that such rhetoric may differ from actual policies and institutions, and also that the state and market are highly intertwined.

Moreover, while much attention in political economy has been focused on how the state affects markets—negatively or positively—less attention has been given to how state ~~roles~~ in shaping markets influence the nature of the state. This chapter explicitly addresses this issue, looking both at how the state has sought to alter economic markets and conversely how such efforts have involved modification of the state. It focuses in particular on functions of providing services and funding, influencing market structures and outcomes, and long-term planning.

The dominant academic literature underlines moves away from traditional post-1945 structures, ownership, and functions that saw the political executives play direct roles in markets towards an indirect or regulatory state. However, the chapter argues that this view omits the continuing direct role of the state. Indeed, economic developments, especially the recent crises after 2000, have revealed and revived the continuing direct roles of the state—as owner, as policy leader, and ~~through~~ direct ~~interventions~~—and sometimes led to increases in these. What has changed in relation to previous periods, however, is that the state's direct role sometimes takes new forms and uses different policy instruments, and is layered on to more indirect forms of state shaping of markets. States are being transformed into both regulators and direct participants at national and international levels.

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The chapter focuses especially on state actors themselves—elected politicians and unelected officials inside central government and elsewhere—and therefore takes the state as an active participant in decisions about its own form and structure. It does not treat 'the state' as a unified entity—rather, it follows the editors in Chapter 1, and looks at different actors within the state. In particular, it distinguishes between political executives (elected politicians and their officials) and non-majoritarian institutions, notably independent central banks and independent regulatory agencies. Its main focus is industrialized countries. It begins with a discussion of the move towards the indirect governance or the regulatory state, and especially its analysis of the state. Thereafter, it offers a critique, using recent 'statist' work, before offering empirical examples of the continuing or even increased direct role of the state in shaping markets, and the implications for its ownership, structure, and functions, as well as explanatory factors for this role. It ends by offering an overview of the state that combines direct and indirect roles, and contrasts it with major analyses of the move towards 'the regulatory state'.

ANALYSES OF THE MOVE TO THE INDIRECT STATE OR REGULATORY STATE

Literature in comparative political economy in the 1960s and 1970s underlined the growth of the state's direct role in markets after 1945 (cf. Shonfield 1965, Hayward and Watson 1975). It pointed to the size, structures, and functions played by political executives in Europe in shaping markets. The state (often national governments, but also regional and local authorities) owned major firms and indeed entire industries such as network industries and 'strategic industries', notably coal, steel, shipbuilding, and cars, as well as finance. Nationalization of major industries took place, not only in the immediate aftermath of the Second World War but also at other times—for example, the 1970s in Britain (under both Labour and Conservative governments) or the early 1980s in France (after the victory of the Left in 1981). In many sectors, especially network industries, these state-owned enterprises (SOEs) enjoyed a legal monopoly. In other sectors, such as banking and other parts of finance or parts of the media, the state effectively created oligopolies by formally or informally licensed firms and/or financing and supporting a small number of firms. Finally, in Europe, most powers were, at least nominally, in the hands of elected politicians—often central governments (e.g. in the UK and France) but sometimes also regional or municipal ones (e.g. Germany, or in the case of water and sometimes energy).

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Of course cross-national, cross-sectoral, and temporal differences existed. Work on statism, planning, and corporatism contrasted the capacity of the French state with less statist countries such as Britain, or the coordination that took place in Germany and many Nordic countries (Shonfield 1965, Wilks and Wright 1987, cf. Dyson 1980). In general, countries with stronger states were seen as more successful in industrial policy (Zysman 1977, Dyson and Wilks 1983, cf. Cawson et al. 1990). *Grands projets* in France were the epitome of the 'strong state', able to lead long-term projects supported by state finance and bringing in private and publicly owned suppliers, in sectors such as telecommunications nuclear energy, high-speed trains, and aerospace (Cohen 1992, Muller 1989, Hayward 1995). The US was the most 'exceptional' case among industrialized countries, being marked by 'regulation' (a term rarely applied in Europe, where concepts such as industrial policy were more common), due to low levels of public ownership of suppliers, the existence of more formalized rules governing supply, and the existence of a number of 'independent regulatory agencies' or 'commissions' (e.g. the Securities and Exchange Commission or the Federal Communications Commission). Nevertheless, in most countries in Western Europe the state was a major direct actor in supporting national champion firms in many sectors. 'Neoliberal' critics were rare and largely marginal (cf. Schmidt and Thatcher 2013). Indeed, economic liberalism seemed an outdated doctrine.

However, from the 1980s onwards, economic markets and understandings of such markets altered sharply. Studies underlined changing economic conditions such as oil crises, stagflation, and fiscal constraints, and then in the 1990s vastly increased capital mobility and 'economic globalization' or at least internationalization. Equally, 'liberal' economic policies such as free trade, capital mobility, or floating exchange rates spread (Simmons and Elkins 2004, Simmons et al. 2006, cf. Streeck and Thelen 2005). Ideas too altered, as Keynesian demand management became unfashionable and was seen as difficult to implement. There were disagreements about the extent of change and its novelty historically, especially over the concept of 'globalization' (Hirst and Thompson 1999), but less about its direction. Naturally, state policies contributed to the changes in markets—but here our interest is in how these affected or fed back into the state's role in economic markets.

In the face of such economic liberalism or 'neoliberalism', analyses underlined a transformation of the state's structure and role in markets, away from direct roles in shaping markets (Wright 1994). Early analyses talked of the 'retreat of the state' or the 'powerless state' in the face of economic globalization' (cf. Strange 1988, 1996, Andrews 1994). Others saw 'the state versus the market', presenting the two as opposed modes of governing economic exchange. Equally, the concept of 'deregulation' became popular. However, such analyses, reflecting political rhetoric, were rapidly criticized and met major problems: far from retreating, the state appeared to be highly involved

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in reshaping markets, notably through forms of privatization and reregulation (Muller and Wright 1994); not only was the existence of economic globalization challenged (Hirst and Thompson 1999), but claims that it rendered the state 'powerless' and drove state policies and structures to a 'liberal state' were rapidly and strongly countered (Weiss 1998, Garrett 1998).

Later studies offered more sophisticated approaches. Two are selected both because they illustrate changing views of the state and because of their importance. Work on varieties of capitalism suggested that in the face of 'economic globalization', countries would maintain their distinctive national institutions, rather than converge on one model (e.g. Hall and Soskice 2001). Initial versions, however, were striking in their treatment of the state, which was largely absent from the two stylized models—liberal market economies and coordinated market economies—or at best in the background, supporting firm-centred institutions (for critiques, see e.g. Crouch and Farrell 2004, Crouch 2005).

In the face of powerful criticisms, varieties of capitalism work began to give greater attention to the state, through acknowledgement of the state's role in liberal market economies (LMEs) and coordinated market economies, both by looking at whether the state played a direct or arm's-length role and through the development of other varieties such as 'state-influenced market economies' or 'mixed market economies' (Hancké et al. 2007, Schmidt 2002, 2003). Nevertheless, the state's role in shaping economic markets in the face of economic changes was seen as becoming more difficult, and indeed likely to be unsuccessful (e.g. in mixed market economies, Molina and Rhodes 2007). Indeed, analyses suggested a move away from direct intervention towards more direct forms, with even France becoming seen as a non-Etatist country, or at least using 'faire-faire' or 'faire avec' rather than 'faire' (Hancké et al. 2007, Schmidt 2009).

Perhaps the most sophisticated analyses concerned the state and regulation. They started from the argument that the state remains deeply involved in markets, but that the form of its activities have become more indirect, and especially regulatory. Indeed, as competition spreads, so state regulatory activities have grown—'freer markets, more rules' (Vogel 1996). Giandomenico Majone's highly influential studies (Majone 1994, 1996, 1997) argued that 'the regulatory state' had replaced the 'positive state' due to changing international economic conditions, European integration, and the perceived failure of public ownership and Keynesianism. The 'positive state' involved state activities and political conflicts being centred on redistribution, notably through fiscal policy, with the key role played by the executive and especially ministerial departments, and with them political parties and civil servants. Policymaking was often undertaken by a small number of actors, and indeed the dominant style is frequently corporatist. In contrast, the regulatory state's core activity is rule-making, especially as competition is extended. Indeed,

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much regulation is focused on competition. The role of the central executive is reduced, at least relative to other major institutions such as the EU and independent regulatory agencies (IRAs), as well as experts and judges. Policy-making occurs through a rule-bound culture, but with much greater pluralism as many more actors, especially single-issue movements and experts and regulators, participate. Although Majone accepted that the speed of change might differ across polities (notably being strongest at the EU level), his central claim was that the EU and national states were moving towards the more indirect regulatory state roles.

AN ALTERNATIVE VIEW: THE CONTINUING DIRECT ROLES OF THE STATE

Claims of an increasing move towards indirect state roles in markets have substantial empirical support. Policymakers, especially at the national level, engaged in ever-widening and spreading privatization from the 1980s onwards. From initially rather modest beginnings that were highly concentrated in Britain (cf. Vickers and Wright 1989), privatization spread across European countries, including 'statist' countries such as France or coordinated or corporatist ones such as Germany (Obinger et al. 2013). Equally, it was extended to long-standing state-owned sectors such as telecommunications, energy, postal services, and stock exchanges (Thatcher 2007). Governments from both left and right engaged in sales of SOEs. At the same time, the structure of the state has been substantially altered through the creation of independent regulatory authorities, and more generally delegation to non-majoritarian institutions (Thatcher 2002, 2005, Gilardi 2008). IRAs have been given substantial powers over the nature of competition, from licensing to price controls. Their duties have often centred on the promotion of competition.

State functions within markets seem to have altered. At least four major state functions or roles can be identified and analysed: providing services or funding; influencing market structure; influencing market outcomes (e.g. prices, range of services, etc.); and long-term planning. For each of these, there seems to have been significant moves away from direct state roles. With respect to directly providing services or funding, widespread privatization has occurred in Europe (and elsewhere), with the sale of many publicly owned companies in sectors such as the network industries, steel, coal, and finance (Clifton et al. 2006, Schneider and Häge 2008, Thatcher 2007). State subsidies have met powerful EU and World Trade Organization rules that limit their scope. Thus, for instance, state aid has been increasingly regulated by the European Commission, which claimed to apply stringent tests

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(Smith 2001). Non-crisis-approved state aid has declined somewhat and is at fairly low levels of under 1 per cent for the EU as a whole.[1]

In terms of market structure, traditional state monopolies in industries such as telecommunications, energy, postal services, airlines, or even railways have largely been ended by EU and national legislation (Thatcher 2007). Moreover, the scope for state discretion and action over the ownership of private companies has met legal constraints. Thus, after the 1989 European Merger Control Regulation, most large mergers are decided by the European Commission,[2] so that, for example, in major industries such as banking, energy, and telecommunications the Commission dealt with several hundred cases between 1990 and 2010 (Thatcher 2014).[3] Decisions are based on grounds of promotion of competition, with little room for other factors such as ~~promoting~~ favoured firms or state-planned industry restructuring. At the national level, a similar process took place for many countries, which formalized procedures and emphasized competition as the aim of policy and ~~the~~ criterion of decision making rather than *grands projet* ~~aims~~ of developing large firms.

Traditional state controls over market outcomes have also been reduced. Thus administered prices decided by elected politicians—either directly or through ownership of suppliers—for goods and services have been eliminated in most sectors. Instead, privately owned competing suppliers decide their tariffs. Equally, medium-term plans and planning organizations have been largely abolished. Indeed, 'industrial policy' became an increasingly unfashionable concept. Thus state functions appeared to move towards regulating competition and 'steering' markets rather than directly 'rowing' itself. The changes are summarized in Table 9.1

However, the emphasis on the indirect role of the state, especially in the face of internationalized and liberalized markets, has met with the development of at least partial alternatives that seek to 'bring the state back in'. In response to

[1] European Commission data show that it was 0.67 per cent of EU GDP in 2000 and 0.52 per cent in 2012: <http://ec.europa.eu/competition/state_aid/scoreboard/non_crisis_en.html> accessed October 2014.

[2] In 1989, limits of aggregate worldwide turnover of more than 5 billion ECU (European Currency Unit) was lowered to 2.5 billion ECU and aggregate EU turnover of at least two of the firms of over 250 million ECU were lowered to combined aggregate turnover in each of at least three member states of 100 million ECU, with the turnover of at least two of the firms being more than 25 million ECU and aggregate EU-wide turnover of at least two of the firms being 100 million ECU.

[3] In contrast, national competition agencies dealt not only with the smaller mergers and acquisitions but also fewer—for instance, between 2000 and 2007, the UK Competition Commission dealt with only two cases in banking, one in energy, and three in telecommunications; for France, the figures were fourteen, seven, and twelve, whereas the Commission dealt with seventy, 125, and 123 cases—Annual Reports of the Competition Commission and Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes, Ministère des Finances, and European Commission: <http://ec.europa.eu/competition/mergers/statistics.pdf> accessed June 2010 and <http://ec.europa.eu/competition/mergers/cases> accessed September 2013.

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Table 9.1 Apparent reductions in the state's direct role in markets

State role	Apparent reduction
Provision of services and funding	Privatization of state-owned suppliers and banks; EU regulation of state aid
Influencing market structure	Legal liberalization of supply
Influencing market outcomes	Prices set by privately owned companies
Long-term planning	Abolition of medium-term plans and planning organizations

claims that the state has been neglected in work on 'varieties of capitalism', a growing literature in comparative political economy claims that far from being diminished, the state 'also rises', notably by (re)structuring markets through new regulatory instruments and forms of industrial policy (Levy 2006, Schmidt 2009, Moran 2003, Block 2008). Such literature seeks to overcome simple divisions between 'statist' and 'non-statist' countries or between state intervention or non-intervention. Instead, it accepts that the state is deeply implicated in structuring markets, and the interesting questions concern which strategies and instruments the state adopts.

One example is an emerging literature on 'economic nationalism' or 'economic patriotism' (Clift and Woll 2012: 318, cf. Rosamond 2012, Helleiner and Pickel 2005). Studies on 'economic nationalism' point out that countries can pursue 'nationalist' objectives but through means other than mercantilism, including different forms of liberalization (Helleiner 2002). Work on 'economic patriotism' argues that even if markets are highly exposed to cross-border trade and capital flows, the state can engage in 'economic partiality' that involves policies that seek to aid domestic interests and/or discriminate economically against territorial outsiders (Clift and Woll 2012: 318, cf. Rosamond 2012). It can do so through protectionism, which seeks to preserve the status quo, or alternatively through 'liberal economic patriotism' that opens up markets to competition, but in ways that advantage domestic interests (Clift and Woll 2012: 316–17). Moreover, it can engage in 'economic patriotism' through different instruments—not just for each state strategy, there are also choices of policy 'target' or instrument. Thus protectionism can take place through classic barriers to trade that close markets to outsiders, or through measures to favour domestic firms such as subsidies and regulation maintaining domestic standards. 'Liberal economic patriotism' can occur through liberalizing selectively in certain domains where policymakers believe domestic firms enjoy a strategic advantage or by reregulating with rules that are unfavourable to overseas firms (Clift and Woll 2012: 316–17). The literature argues that an 'economically patriotic' or 'economically nationalist' state exists even in LMEs.

Recent 'statist' work is valuable in challenging the emphasis on the state as merely a regulator of competition, and in distinguishing policy strategies from

policy instruments (cf. Le Galès and Lascoumes 2004)—the latter can change even if the former do not. This chapter follows its line of argument and seeks to take it further. It suggests that the 'direct state' remains alive and well in economic markets. It argues that political executives—elected politicians and their officials—remain key actors in economic markets, and that they pursue their strategies through old and new policy strategies. The direct features of the state do not mean a loss of regulatory functions—rather, the latter have been 'layered' on top (cf. Streeck and Thelen 2005).

In terms of direct state provision of goods and services, old instruments remain, and sometimes have seen revivals. Thus although the privatization of SOEs has continued in major domains (notably network sectors such as energy), not only have large and often controlling state stakes remained (cf. Schneider and Häge 2008), but also a converse process of direct and indirect national or renationalization has also taken place. When large national suppliers have been threatened with bankruptcy, nation-states have often stepped in and bought shares. Already in the 2000s, the UK, despite being classed a 'liberal market economy', rescued the private railway infrastructure operator Railtrack and the government is now the proud owner of Network Rail (which from 2013 is classed as part of the public sector). The financial crisis of 2007/8 revealed the state's capacity to (re)nationalize large failing national companies. The most prominent examples have arisen in the financial sector, where states now own minority or even majority stakes in large banks—for instance, Royal Bank of Scotland/National Westminster and Lloyds in the UK. However, the movement has extended to other sectors—for instance, in Italy La Poste has taken an important stake in Alitalia, while in France there have been several attempts (some implemented) to 'remunicipalize' local water concessions and discussions of renationalizing the motorway operators. In the US, the financial crisis revealed that the state is in fact the ~~legal~~ owner of Fannie Mae and Fannie Mac, despite legal fictions of separation, and that when major firms such as Chrysler or General Motors risk bankruptcy, it can and does nationalize them.[4]

At the same time, new forms of state ownership have emerged. For a start, SOEs themselves have expanded by internationalizing, not just through exporting (which has greatly expanded) but through taking over other, overseas suppliers. Hence for example, EDF (Electricité de France), which is majority state-owned, has become the largest electricity company in Europe (by market capitalization), having taken shares in several other large suppliers (inside and outside Europe, including several privatized firms in the UK and Germany, such as London Electricity and ENBW). Moreover, state ownership can occur through public or semi-public holding companies and 'investment banks'. Thus, for example, the Cassa Depositi e Prestiti in Italy has taken

[4] Although the 2008–9 purchase of shares in Chrysler was ended by their sale in 2011 to Fiat.

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stakes in major companies, both financial (e.g. to rescue Monte Paschi di Sienna bank) and industrial. Several Western countries have established new 'sovereign wealth funds' that buy shares in domestic firms—e.g. the Le Fonds stratégique d'investissement (FSI, created 2008) and then Banque Publique d'Investissement (2012) in France or the Italian Fondo Strategico (2011).

Comparative quantitative data on state ownership are difficult to obtain, especially in time series form. Moreover, data can be biased by incentives of countries to hide it and/or the normative bias of many international organizations against state ownership.[5] Bearing these important caveats in mind, one indicator of 'state control' is provided by the Organisation for Economic Co-operation and Development (OECD) study of product market regulation.[6] It shows a fairly significant decline in state control between 1996 and 2003, but thereafter a much more mixed pattern between 2008 and 2013—with some countries showing increases (e.g. Ireland, Iceland, and New Zealand), others stability (e.g. France and Belgium) and others continuing decline (e.g. Greece, Spain, and Portugal). An OECD analysis of SOEs in 2012 shows significant continuing state ownership. Interestingly, there are no figures for the US, which showed a small increase between 2003 and 2008. It would be fascinating to see how state support for car firms and for large financial institutions, including banks, insurance companies (e.g. AIG), and house financing (e.g. Fannie Mae and Fannie Mac) were counted. However, it is a snapshot and based on a survey of member states. Table 9.2 sets out the OECD's figures for Western countries.

However, it is indirect ownership and funding that may be larger than visible state ownership. Already for the US in the 1990s, the importance of the 'shadow state' was noted (Light 1999). The shadow has lengthened since then, thanks to different instruments, although by its nature it is very difficult to quantify. A key part is implicit state ownership through state guarantees. The crisis of 2007/8 revealed that many financial institutions enjoy *de facto* guarantees, which in some cases became *de jure* in times of need. Moreover, important financial instruments have also allowed the state to attempt (successfully or otherwise) to influence lending. Governments have continued direct state funding for firms. They have provided state aid to struggling companies—from banks to car companies, plus other prominent examples such as airlines and even France Télécom. State banks continue to offer finance—not just well-established ones such as the Caisse des Dépôts et

[5] For example, the OECD exhibits concerns about the 'unfair' advantages of state-owned enterprises, their difficulties of corporate governance, or whether they lower efficiency—see Kowalski et al. 2013 and OECD 2012—but does not exhibit similar levels of critical scrutiny towards privately owned firms, for instance in the financial sector, despite the prominent part played by privately owned financial firms in the financial crisis after 2008.

[6] Available at: <http://www.oecd.org/corporate/ca/oecddatasetonthesizeandcompositionofnationalstate-ownedenterprisesectors.htm> accessed September 2014.

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Table 9.2 OECD data on state controls

Indicator	STC: State control			
Year	1998	2003	2008	2013
Country				
Turkey	4.4233427	4.1465597	3.6556759	3.4363689
Greece	4.2409129	3.8082786	3.3257184	2.8197126
Portugal	4.0446529	3.4168065	2.8948812	2.1832292
Italy	3.8182473	3.1501875	2.5800891	2.1418452
Spain	3.6870742	2.4938581	2.1627815	1.8570992
France	3.4117589	2.8273253	2.4145327	2.3709273
Hungary	3.4020095	2.470068	2.0313101	2.0494869
Czech Republic	3.2754493	2.578126	2.1129861	1.9505452
Belgium	3.1581228	2.3452258	2.1467278	2.1918879
Austria	3.0901964	2.3328528	1.9499971	1.6704669
Switzerland	3.052331	2.7534988	2.6552005	2.6783919
Ireland	2.9985859	2.5049686	1.8368714	2.1243005
Poland	2.974679	3.569165	3.3164487	3.0631847
Netherlands	2.9651284	2.2766023	1.4395179	1.4332321
Norway	2.809582	2.1849089	2.19507	2.1297629
Finland	2.7476711	2.2599952	2.1791396	2.1329598
Korea	2.6031113	2.0955782	2.438935	2.4686151
Iceland	2.5986662	1.9277139	1.8387318	1.9684445
Mexico	2.583895	2.2847023	2.11689	2.0166087
Germany	2.5713673	2.1458712	1.9937351	1.8574901
Denmark	2.315362	1.8333026	2.0254462	1.9659157
Australia	2.2771125	1.5882808	2.2055373	1.9879792
Sweden	2.2054441	1.9095371	2.388495	2.2244525
Canada	2.1474288	2.0800376	1.9603789	1.9195344
Japan	1.8743045	1.6555464	1.9039646	1.8537081
United Kingdom	1.6806819	1.1534009	1.6318237	1.5711745
United States	1.6248317	1.4255412	1.5013731	—
New Zealand	1.1793106	1.5545529	1.9283354	2.061861
Non-OECD Member Economies	—	—	—	—
Slovenia	—	—	2.7422261	2.5027826
Slovak Republic	—	3.0366666	2.3245091	2.3054862
Luxembourg	—	2.6943362	2.3380041	2.4490461
Estonia	—	—	1.8073441	1.6063105

Consignations (CDC) in France or the KfW (Kreditanstalt für Wiederaufbau) in Germany, which is owned by the Federal and regional governments and raises capital with a state guarantees, or the Cassa Depositi e Prestiti in Italy, which has lent to large firms in difficulties, but also newly created institutions, e.g. the recently established Banque Publique d'Investissement in France. However, perhaps more importantly, they have created indirect instruments such as state-supported financing schemes for industry, be these in the form of state-induced or monitored bank lending schemes (e.g. 'project Merlin' in the UK, whereby the banks agreed targets for lending to small banks, in return for

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which they were offered cheap Bank of England funding). Thus for instance, central banks have accepted commercial paper as collateral assets. The sums are enormous—for example, the UK banks pledged to lend almost £200 billion (although the target was missed and includes lending that would have occurred anyway). The European Central Bank (ECB) for its part, announced in 2014 targeted longer-term refinancing operations (LTROs), which began with an offer of 400 billion euros in 2014 (and will grow over time), equivalent to about 7 per cent of all bank lending in the Eurozone area, but whose terms included lending conditions by the banks. Hence, far from reducing the size of the state in terms of suppliers, the crisis has seen the development of new instruments for direct and especially indirect state ownership, or at least the assumption of risks of supposedly 'private' firms, often away from the balance sheets of governments.

Although direct and visible state aid remains limited, governments have engaged in strong 'tax competition', seeking to offer the lowest tax rates to attract multinational firms, as well as aiding firms in general. Sometimes this has been part of public political strategies, and has even involved explicit redistribution—for instance, the Conservative-Liberal government in the UK reduced corporation tax rates and offered schemes such as the 'patent box' that permit firms to reduce taxes while also seeking to cut public spending, especially on welfare spending, while in France, François Hollande has introduced a policy that will reduce labour taxes paid by firms by 40 billion euros, paid for by increased taxes on individuals and public spending cuts. But perhaps the largest instrument of industrial support has been financial repression, as central banks have lent vast sums at very low interest rates to ~~'private'~~ banks—representing a form of subsidy to such banks. In the energy sector they have offered guaranteed prices, backed by the state. More generally, various forms of 'off-balance sheet' schemes (such as public–private partnerships or financing) have seen state support and investment moved out of visible government budgets, although risks and potential liabilities remain with the state.

A second state role in markets is influencing their structure. National legal monopolies were a major traditional instrument to do this. Such monopolies have greatly declined, especially in network industries. However, governments use other policy instruments, some long-standing but others new. Even when opened up to competition, some markets require licences. Their allocation can be subject to 'political interference' as processes such as mobile telecommunications licensing shows (Thatcher 2005), often involving favouring selected suppliers. Moreover, governments can strongly influence the nature of competition, by decisions about how many and which firms are key players in markets. They may allocate public contracts to favoured firms, an instrument that has become more important as contracting out of public services has spread. Thus even in the UK, which claims to promote competition, a small number of ~~inside~~ companies dominate certain markets, and continue to do so

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even if their record is poor (the most notable examples are in large IT projects). In France, 'private' national firms such as Bouygues or Vinci depend heavily on major public contracts for which competition has been limited.

Political executives have also played highly visible roles in restructuring of firms, notably through mergers and acquisitions, sometimes through deciding sales and alliances, and sometimes through providing political support. There are many examples, which span 'statist' countries such as France (e.g. the marriage between GDF and Suez, or the creation of EADS under the 1997–2002 centre-left government of Lionel Jospin) to 'liberal market economies' such as the UK (for instance, the sale of TSB from the nationalized Lloyds bank to the Coop and then pressure on the latter to buy Lloyds branches). In Italy, the Berlusconi government prevented a takeover of Alitalia by Air France in 2008, and the previous Prodi government steered Telecom Italia towards an alliance with Telefonica to prevent an obvious and complete overseas takeover. Even the growth of EU regulation may not prevent governments continuing to build powerful national or international champions. Thus an analysis of three major sectors—banking, energy, and telecommunications between 1990 and 2009—showed that almost all mergers were among European firms and very few involved non-EU takeovers; moreover, several major mergers saw historic incumbent suppliers who enjoy close links with governments taking over other suppliers, yet these were approved by the European Commission (Thatcher 2014).

In terms of the operation of markets, political executives continue to enjoy and use direct formal and informal powers over key outcomes, including in domains delegated to IRAs. The most visible powers held by ministers are to set certain tariffs openly in several countries (e.g. for regulated energy prices for consumers in France, where on frequent occasions they have ignored the recommendations of the IRA based on economic formulae). Equally, 'informal' pressure can be exerted. This was seen in the UK in 2013–14, when a political row over rises in electricity prices by the six largest privately owned suppliers led to the opposition Labour Party promising a price freeze, parliamentary debates and committee scrutiny, and finally some limits on price rises. Finally, taxes and subsidies continue to play major roles. Thus for example, governments have influenced pricing decisions through altering 'green levies' on energy prices.

However, less visible powers have also been derived from newer instruments in many European countries. One source are licence conditions, which governments can strongly influence. Thus for instance, in the 'liberal' UK, the government is preparing long-term energy supply licences for nuclear energy suppliers with minimum prices ('strike prices') that are double current levels to last thirty-five years. Equally, licence conditions contain redistributive measures (contrary to the regulatory state hypothesis that regulation is now centred on ensuring competitive markets), notably 'social tariffs' for poorer

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users of electricity, water, and even banking, or requirements of universal coverage of countries at the same tariffs or limits on the cut-off of water or other utility services in the face of non-payment.

Many detailed powers are now exercised by IRAs and other non-majoritarian institutions such as independent central banks (Thatcher and Stone Sweet 2002). These are of course part of the state, and hence represent part of its policies to shape markets. Although they are new organizations, they also represent a form of administrative instrument for elected politicians, who can seek to use them for aims such as increasing expertise, credible commitment, or blame-shifting. Frequently their aims are set out in legislation. However, the establishment of such non-majoritarian institutions has not always meant a reduction in the direct powers of elected politicians and executives. For a start, the latter can set policy objectives for IRAs, even if they allow choice over the means of achieving these. The clearest examples are when governments set inflation goals for the independent central bank or guidance on social and environmental questions to IRAs (both of which apply in the UK). Moreover, elected politicians have used instruments of administrative reorganization to modify the institutional position of IRAs and central banks, rather than taking detailed decisions themselves. The institutional reforms have at times been major—for instance, merging IRAs or modifying their aims, duties, and powers. Hence for example, the architecture of financial regulation in the UK was significantly altered in 2013 as the Financial Services Authority (FSA) was abolished and replaced with two new bodies—the Financial Conduct Authority and the Prudential Regulation Authority located within the Bank of England, which was given major new roles and duties in financial stability and regulating banking. Alteration of institutional structures has often been an instrument for ~~altering~~ the operation of markets—for example, altering policies towards financial firms by changing the existence and distribution of powers among financial regulatory institutions. Finally, both IRAs and independent central banks in practice interact and cooperate closely with governments, features revealed most clearly after the economic crisis of 2007/8. The non-majoritarian bodies can perform functions that previously governments undertook, such as rescuing firms or supporting demand and lending, often in cooperation with them. Thus formal delegation to non-majoritarian bodies may offer elected politicians a new agent through which to seek to influence markets.

Another vital source of powers over market outcomes is supranational regulation, notably by the EU. This may seem paradoxical, especially in the context of claims that nation-states have lost powers. Although the regulatory state literature has presented the EU as separate from national governments, in fact much EU regulation is made through their active participation, both in the Council of Ministers and through committees. Equally, the ECB is composed of national central bank governors who are usually nominated by

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political executives. The economic crisis of 2007/8 also revealed the flimsiness of distinctions between monetary policy, fiscal policy, and financial regulation, and the need for the 'independent' ECB to cooperate with national governments. Thus the ECB's strategy of preserving the euro has required alterations of banking regulation, such as establishing bank winding-up procedures, and transfer of powers to the ECB, which need assistance and often agreement from national governments. Preserving the euro may also be strongly linked to national governments introducing domestic reforms; cases such as Greece or Italy (where the ECB sent detailed instructions in 2011 about reforms as a quid pro quo for support for Italian bonds), representing a far cry from a separation of competition-based regulation and redistributive (party) politics. Indeed, the EU can offer new instruments and sources for elected policymakers in at least two ways. First, they may 'upload' their preferences to the EU level, where new regulation is passed. Second, the EU may provide a source of apparently 'external' legitimation and impetus for national governments to shape markets. EU regulation also typically provides considerable discretion for member states, especially when it takes the legal form of directives, which are binding as to objectives but not means, typically very general, and which must be transposed into domestic legislation.

In terms of the fourth role of government—planning—traditional national 'plans' or *grands projets* in countries such as France, set by governments with planning organizations and publicly proclaimed aggregate targets, have largely ended in Western countries (cf. Hayward 1995). However, governments, sometimes in cooperation with IRAs, continue to engage in long-term planning—for example, in terms of the energy industry in terms of the balance between nuclear and non-nuclear sources; even the supposedly 'liberal' UK government has developed plans lasting over thirty years, including prices, investment, and government-encouraged and selected consortia, to encourage firms to build new nuclear power stations. Similarly, ~~they~~ have set priorities and investment in railway projects—not just new high-speed trains in France but also the contentious HS2 (High Speed 2) project in the UK. They also seek long-term foreign direct investment, through mechanisms ranging from subsidies (direct or indirect through tax concessions) to 'passive investment', notably from foreign sovereign wealth funds and state-owned enterprises. One example is the UK's strategy to bring in the state-owned French electricity supplier EDF and Chinese state investors into the financing and building of new nuclear power stations. Moreover, state officials have played direct roles in (re)shaping markets not only in 'statist' countries such as France, but also in ~~supposedly 'liberal' markets such as~~ the UK and US. In several domains, these supposedly 'liberal' states have been recognized as highly active, if not illiberal (King 1987, 1999, Gamble 1988). Indeed, the US has been seen as pursuing forms of industrial policy through forms of state-sponsored research (Block 2008).

Table 9.3 State roles and direct instruments for shaping markets

State role	Old instruments	New instruments
Provision of services and funding	National SOEs; state banks; subsidies	Internationalized SOEs; state guarantees; SWFs; state-required private funding; financial repression; tax competition
Influencing market structure	Legal state monopoly	Licensing; choice of providers; mergers and aquisitions
Influencing market outcomes	Price controls; use of state-owned enterprises	Reregulation of competition by IRAs or political executives (e.g. minimum services); IRA reorganization; international reregulation; 'downloading'; externally 'imposed' reforms
Long-term planning	National plans	Long-term contracts

Although rarely trumpeted as *grands projets*, the state is in fact seeking to engage in long-term national planning.

This chapter does not examine the effectiveness of the state's new instruments nor of its direct role. However, it is noteworthy that contrary to the claims of the 'regulatory state' literature, the state is engaged in different forms of redistribution. Sometimes this takes place through regulatory instruments, such as regulated and unregulated tariffs or through levies or social obligations (e.g. limits on cutting off water or other supplies to certain groups or low-cost tariffs or services, or through national pricing). However, when subsidies are used there is direct redistribution. The largest after 2008 has been to the financial sector through bailouts, as well as lending at very low interest rates.

The continuing roles of the state in markets and the range of old and new instruments are summarized in Table 9.3

ANALYSING THE CONTINUING ROLE OF THE STATE

How and why has the state, and especially the political executive, continued to play a direct role in the shaping of markets in terms of ownership, powers, and functions, or even seen that role expanded? Why have the rhetoric and aims of 'rolling back the state' of the 1970s and 1980s been largely abandoned, and instead new instruments for state action added to older ones?

Hood (1994) sets out four explanations for reversals in economic policy: new competitors and predators (institutions and interests), economists' ideas, habitat, and self-destruction (cyclical movements). Each can be applied to offer processes and elements of explanation for the modified nature of the state in shaping economic markets. They offer different lines of analysis for an initial enquiry.

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In terms of altered interests, pressures on politicians to 'act' through direct state action have remained or reappeared in times of crisis. As King and Wood (1999) argue, a political economy analysis needs to include both the pressures and constraints arising from economic imperatives of ensuring the health of firms, and also the political imperatives of winning and maintaining office. Both sets of factors have given rise to powerful forces on elected politicians.

Large firms, including supposedly privately owned ones, have pressed governments for protection from competition, funding, and planning. Thus for instance, banks or car companies have lobbied for support, ranging from traditional subsidies to new indirect forms of support. Equally, business associations have sought long-term contracts both to ensure reliable sources of future revenue for suppliers and also to provide infrastructure (be this physical such as railways or airports, or communications and energy) for companies. Such state action has remained even in liberal market economies—indeed, as King and Wood (1999: 375) point out, the weaknesses of coordinating mechanisms 'imply a greater role for governments in determining supply-side outcomes'.

Elected politicians have also faced electoral and popular demands to influence or counterbalance the operation of markets. Thus for instance, despite privatization of suppliers and delegation of regulatory powers to IRAs, governments have not been able to delegate responsibility (and blame—cf. Hood 2002, 2011) for increased energy prices, especially in times of falling real incomes, including in supposedly 'liberal' polities such as the UK and US. Political parties, including those on the right, have returned to 'statist' rhetoric and instruments, from Sarkozy's calls for state leadership to Cameron's 'Big Society' action through links to the third sector. On the centre-left, politicians such as Obama or François Hollande have seen opportunities to attack the retreat of the state. However, politicians have found themselves hemmed in by institutional and especially economic constraints, notably fiscal limits. Hence unsurprisingly, they have turned to new instruments, particularly those that are off central government balance sheets such as state guarantees or providing lending to firms from 'private' banks through state-agreed or imposed lending requirements or incentives. Equally, being unable or unwilling to fund certain services, they have sought to use licence conditions to provide such services.

A third powerful group arises from within the state itself. Unelected public officials have been vital actors in state activity—be this in terms of protecting what they view as 'the public interest', expanding their powers, or protecting their popularity—and provides a related factor. IRAs and other non-majoritarian institutions have sometimes found increased direct action by political executives useful—in legitimating or taking unpopular decisions. Indeed, often a direct role for political executives has gone hand in hand with an increased role for non-majoritarian institutions such as IRAs.

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Altered habitat also offers valuable clues to explain the state's continued roles but altered mixture of instruments in shaping markets. Its force has been revealed particularly clearly by the economic crisis after 2007 (cf. Gamble 2009, Grant and Wilson 2012, Coen and Roberts 2012), although many features existed before then. Economic conditions in the 1980s and 1990s that favoured the state reducing its direct role in supporting firms and electors, such as reasonable economic growth, high private sector demand, a booming financial sector, cheap oil prices, and falling raw material costs, have been reversed since the 2000s. Financial crisis and higher commodity prices have led to political and economic forces on elected politicians to use new, and often direct, policy instruments to sustain markets. The changing position of the banking sector has been crucial here: governments have needed to rescue financial firms but equally importantly, have faced powerful pressures to provide financial support to other actors to replace the traditional banking sector. Caught between these powerful pressures and fiscal constraints (themselves in part due to low growth and banking costs for public budgets), governments have turned to instruments such as state guarantees, state requirements on banks to lend, or new sovereign wealth funds and public investment banks aid markets but do not increase direct state debt. Equally, the great recession has created powerful pressures on incomes, to which governments have responded with reregulatory measures concerning prices or licence conditions that do not cost 'public money'. Poor economic performance has increased the need for governments to both aid firms and to act as a 'compensatory state', both in terms of the labour market and for firm support, acting through indirect instruments (cf. Schmidt 2009).

Ideational explanations might seem highly surprising, given the resilience of neoliberal ideas (Schmidt and Thatcher 2013). But such ideas are not hostile to state action—indeed, they require state action, including direct action to create and support 'competitive markets', prevent market power, and limit trade unions (cf. Gamble 2013, 1988). Moreover, neoliberal ideas have proven highly flexible, being adapted to crisis to justify state action and new instruments such as disguised bank subsidies and bailouts (cf. Schmidt and Woll 2013, Jones 2013). The plasticity of neoliberalism has offered a good cover for state action, even as the rhetoric of state 'non-interference' in 'the market' has continued. Moreover, even the dominant ideas in economics have begun to alter, especially after the 2007 economic crisis. Some ideas are revivals of older ones (e.g. neo-Keynesian views—cf. Stiglitz 2010, Krugman 2012), while others appear novel (e.g. 'behavioural economics'), but they all underline the limits of markets and the need for state action, notably through ensuring funding for investment and regulation of behaviour. Some works have achieved mass popularity and hence directly entered political discourse and debate, or have even led to policy units and recommendations (e.g. the concept of 'nudging'—Thaler and Sunstein 2008).

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Finally, cyclical factors provide a powerful set of explanatory processes. Policy can be endogenous, and hence changes in the state's role often arises from the very nature of 'neoiberal' economic policies. One mechanism may be through altering the environment of policy, which then creates pressures for state responses. Thus for instance, the increased financialization of the economy played a major role in the economic crisis after 2007/8, which the state has had to face (or accept economic disintegration), including through (re) nationalization and financial support. Equally, ending public ownership in network industries has allowed the creation of privately owned oligopolies driven by short-term profitability, which then raised prices and created political unpopularity as well as strong reasons for state action to preserve long-term investment and security of supply. A second mechanism can be the policy lessons learned from the successes and failures of attempts to 'roll back the state', be this 'rational' learning or forms of blame avoidance and legitimation of pre-existing strategies (cf. Howlett 2012). Hence, for example, initial hopes of 'deregulation' of network industries such as energy and telecommunications were soon followed by 'learning' that competition and important social objectives such as protection of poorer consumers required reregulation; hence far from ending state action, governments have given greater powers to independent regulatory agencies and taken direct powers for themselves (cf. Vogel 1996, Thatcher 1999). Finally, initial policies to 'drive back' the state have had the unintended consequences of allowing or encouraging new forms of state action. Hence privatization has had the paradoxical effect of allowing state-owned firms to expand—for example, EDF's internationalization has involved buying recently privatized overseas suppliers. Equally, financialization combined with high energy and raw material prices as well as the liberalization of international capital, have permitted countries to establish sovereign wealth funds, which then represent the return of state ownership (albeit in new guises and with new owners).

CONCLUSION

How does the view of the state presented here differ from that of the more 'indirect' or 'steering' state, especially the varieties of capitalism models or the regulatory state model? It certainly accepts that ~~as the varieties of capitalism models suggest,~~ the state supports firms, and that we can see diverse patterns in the instruments through which it does so. Equally, differences among types of capitalism can be identified in terms of state features such as the extent of public ownership or the spread and features of IRAs. It also accepts that many of the features of the regulatory state have spread, as regulatory activity has grown. In terms of the state, this means changes such as the creation of

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non-majoritarian institutions such as IRAs, and the extension of supra-national regulation.

However, the chapter also suggests that if we separate strategies or roles and instruments, then a different picture emerges. In terms of markets, ~~it~~ continues its roles of providing services and funding, seeking to influence market structures and outcomes, and engaging in long-term planning. However, this does not mean a replication or return to 1960s or 1970s industrial policy or *grands projets*—at the very least, the rhetoric of policy differs and current policies are more internationalized, and the mix of policy instruments used differ. Moreover, ~~direct~~ state structures, activities, and functions in shaping markets are layered on to those of the regulatory state. The result is the combination of many traditional policy instruments, albeit in decline, such as direct public ownership of suppliers or subsidies, indirect 'regulatory' instruments recognized by the literature on the regulatory state, and newer, more direct instruments.

Political and economic imperatives continue in advanced democracies for the state to shape markets. The state continues to pursue strategies of supporting firms and seeking to gain sufficient political support for elected politicians. The combination of instruments used for so doing has been modified, and analyses can examine changes in interests (firms, electors, politicians, or state officials), ideas, the economic environment, or the results of past policies. Yet the most important conclusion may be that despite claims of a move towards a more indirect state dominated by non-majoritarian institutions, elected politicians and their officials remain central and continue to seek to (re)shape economic markets directly, features that have become more evident since the crises after 2000.

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