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**Abstract.** Political economists highlight power relations in the economy and the co-constitution of state and economy, but often implicitly retain the conception of the state as a site of political practices and power struggles rather than as an economic actor and site of production. This paper contributes to a political economy framework that recognizes that political and economic practices take place in the market economy, the household, and the state. We categorize the dimensions of wide-ranging state economic practices. Defining productive activities as those that impact the volume of social production, we argue that some state activities are productive and highlight those providing social and physical infrastructures that are inputs in production processes. The state is not only an important economic player; it is also productive.

Keywords: political economy; economic sociology; state; production; social infrastructure; physical infrastructure

JEL codes: B5, H0, H11, Z13

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# **Beyond regulation and redistribution: the state as a productive economic actor**

## **1 Introduction**

The state seems to be back. Whether it is the size of deficit spending during the Global Financial Crisis (Tooze, 2019), the extent of welfare state measures during COVID, the US' protectionist turn under the Inflation Reduction Act, or the rediscovery of industrial policy in the context of global heating, there is mounting evidence of a return of the state. Academically this is reflected in attempts to bring the state back in again (Schmidt, 2009), to theorize state-permeated capitalism (Nölke, 2018), to explore the 'symbiosis of states and markets' (Schwartz, 2022), as well as in the re-discovery of the Keynesian multiplier (Blanchard & Leigh, 2013) and the resurgence of debates on state capitalism (Alami & Dixon, 2024). This paper does not join this 'the state is back' chorus. Instead, it aims to bring the economy back into the state. It makes the case that the state has always been an important economic player but has not been recognized as such (cf Block, 2008; Mayrl & Quinn, 2017). This is not only due to the dominance of neoliberal discourse but also, we argue, due to shortcomings in the analyses of contemporary political economists (a category we understand to include economic sociology (henceforth: ES)).

A dichotomy of the state as the sphere of politics and distinct from the economy, where production takes place driven by private sector forces, is deeply ingrained in the current disciplinary division between economics and other social sciences. Mainstream economics follows the liberal tradition in conceiving the private sector as the quintessential productive site, devoid of power relations, and distinct from the state. Economists commonly mobilize a government-versus-markets dichotomy and stress that state 'intervention' is negative for individual freedom, allocative efficiency, and

economic growth (Tanzi, 2011). Critical and sociologically-inspired political economists have rightly countered some of these assumptions by highlighting the existence of power relations within the capitalist or market sectors (e.g., Bowles & Gintis, 1986), identifying power dynamics and productive processes within the household (or family) sector (Folbre, 1994), and showing how state and capitalist economy are not autonomous but interdependent and co-constituted (e.g., Bandelj & Sowers, 2010; Carruthers, 1996). Despite this progress, we argue, contemporary political economists have often, if unwillingly, reproduced a restrictive notion of the state as the site of political practices, coercion, and power struggles. Even when recognizing that state and markets are not mutually exclusive, they do not conceive of the state as a site of production.

We argue that contemporary political economists commonly underappreciate and undertheorize the range and significance of state economic activities and, in particular, that they often implicitly treat the state as economically unproductive. We focus on ES and Comparative Political Economy (CPE) as the academic fields most directly relevant for a paper that interrogates how scholars theorize the economic role of the state. ES analyses the social and institutional embeddedness of economic processes of which the state is a vital part and, more generally, has long acknowledged, theoretically if not always empirically, the non-dichotomic relation between states and markets. CPE, with its cross-country comparative approach, analyses states' geographical habitat. However, our main argument is relevant for a wider range of political economists. The state is usually regarded as regulating, taxing, spending, and redistributing. It is not conceived as productive itself: it needs to tax the private sector to extract privately-created resources to spend. Economic sociologists have long stated that state and economy are 'connected worlds' (Bandelj & Sowers, 2010, pp. 22, 194).

States play a positive role in economic processes and outcomes by providing the institutional conditions for capitalist economic activity. While we draw on these and other insights, we argue that in practice empirical ES research goes half-way. It (rightly) states that capitalist markets are not natural but partly constituted by state action, without fully theorizing the state's productive role. The New ES<sup>1</sup> and fiscal sociology stress that things commonly deemed 'purely economic' are deeply social and political. However, there is little explicit empirical analysis of economic and particularly productive state practices.

Within CPE, the Varieties of Capitalism (VoC) approach has a prominent role for institutions, but not for the state (except insofar as it shapes institutions). It focuses on institutional arrangements that result in private competitiveness (Hall & Soskice, 2001b). The state regulates, enables, and influences economic processes (Schmidt, 2009), but is not economically productive.<sup>2</sup> The growth models (GM) approach enriches CPE's understanding of the economy by analyzing demand formation (Baccaro & Pontusson, 2016). It shifts the focus from institutions to policy regimes (Blyth & Matthijs, 2017). Thus, the state does play a more active role in the analytical framework but has had a secondary role in empirical research, with most studies focusing on private sector dynamics (see Kohler & Stockhammer, 2022; Tan & Conran, 2022 as exceptions). Certainly, there is no concept of the state as a productive economic agent.

The paper's contribution is to provide a conceptual framework to map the range of state activities that acknowledges the state as a productive economic actor. We argue that the state engages in a wide array of economic activities and categorize them, ranging from providing preconditions of production, such as legal systems, to direct production by state corporations. We stress social and physical infrastructure provision as commonly overlooked productive state activities.

We take a comprehensive rather than firm-centric approach to social production, recognizing that production has inputs from households and the state as well as from the market. Political economists are fully aware that private-sector production has social and institutional preconditions. Because they often employ firm-centric notions of production, however, they see production as carried out by the private sector alone, with labour, machinery, energy etc as the necessary inputs, and some state-provided general preconditions (such as regulation and the legal system). We argue that physical infrastructure (like roads) and social infrastructure (e.g., a healthy and educated workforce) are not just general qualitative preconditions of production; their impact on output (or productivity) can and has been quantified. These inputs into the production process are invisible in a firm-centric framework that takes state activities for granted. Once one adopts a broader, e.g., comparative, national or regional perspective, it becomes clear that the extent of these state-inputs varies substantially and impacts economic productivity as well as life quality. Both the state's and households' economic activity can be regarded as productive if they affect the total volume of social production. This means that many economic state activities are indeed productive.

The paper walks a fine line. On the one hand, we assert that much contemporary political economy does not have an adequate analysis of the state's economic role. The state is regarded as site of political contestation that shapes economic activity, but rarely itself a site of economically productive activities. This notion, however, often results from an analytical focus on market dynamics rather than from explicit theoretical commitments. Few political economists outside Marxism (e.g. Mohun, 2014) would explicitly claim that the state is unproductive. On the other hand, many of our specific arguments have been made before, though usually in more circumscribed contexts, and we build on diverse parts of the political economy literature accordingly (e.g. Block,

2008; Chang, 1996; Dincecco & Katz, 2016; Goldscheid, 1925/1958; Mann, 1986/2012; Mazzucato, 2013/2015). Thus, this paper aims to generalize, and further develop existing but embryonic and often scattered arguments into a synthetic framework that makes state economic activities visible.

The paper is organized as follows. Section 2 takes stock of how different contemporary political economy approaches theorize the state. Section 3 locates state political and economic activities relative to those of firms and households. Section 4 maps out state activities and collects diverse literatures to substantiate their significance. Section 5 argues that the state is economically productive. Section 6 concludes.

## **2 The state in Economic Sociology and Comparative Political Economy**

Following the liberal tradition, mainstream economics partitions the social world into specifically defined public (state) and private (market) spheres and places the economy and productive practices as its exclusive disciplinary jurisdiction. This section argues that while recent political economy works have challenged much of this traditional conceptualization, they commonly retain a notion of the state as unproductive.

There is a long tradition in economics that regards the state as unproductive. This is rooted in the classics—Smith, Ricardo, but also Marx. At best, the state provides socially desirable public goods, some of which are institutional preconditions of economic activity, like security and jurisdiction. Still, it is deemed extractive and unproductive and associated with rent-seeking as it finances itself by taxing part of the social surplus. State activity is about the use of economic resources, not their creation. This notion is notably present in modern mainstream economics. In their seminal public

sector analysis, Musgrave and Musgrave (1989) allow for allocative, distributive and stabilising functions of the state but no productive role.<sup>3</sup> Key here is the concept of market failure: state action is justified where market forces lead to socially suboptimal outcomes. The state may ‘intervene’ to fix market failures, but the private sector provides the basic structure and leads the economic process. Furthermore, this positive if limited role of the state is mostly allocative rather than productive. While Keynesians have a more positive role of the state (Keynes, 1936/2013), they share the view that the state is auxiliary to the productive process. State intervention is needed to ensure full private-sector utilization of productive resources, but the state does not produce itself.

Development economics has traditionally been more sensitive to the productive role of the state. Much of the core arguments can already be found in List’s *National System of Political Economy* (List, 1841/2001). List counterposes nation-centred political economy to cosmopolitan (i.e., liberal) economics. Because free trade regimes benefit the leading economic power, other countries need to use a different set of policy instruments to develop—e.g., infant industry protection. List criticizes liberals’ focus on value theory and instead proposes a theory of productive development which highlights the (productive) role of education and assigns a productive role to the state (or the nation).<sup>4</sup> These arguments reappear in the economic history literature on late developers (Gerschenkron, 1962), structuralist theory (Prebisch, 1950) and analyses of the Asian developmental state (Haggard, 2018; Johnson, 1982; Woo-Cumings, 1999). This literature acknowledges that state activity can be productive and that development has financial preconditions. Its main limitation, in our view, is that this productive role of the state is often confined to late-comers or developing economies.

Political economists have challenged neoclassical economics’ foundational assumptions. Building on class analytical approaches, they stress that there are power

relations in the private or capitalist sector (e.g. Bowles & Gintis, 1986). More recently, they have adopted Polanyi's (1944/2001) insights and drawn attention to the social and institutional embeddedness of markets. Our contention is that while this has overcome neoclassical conceptions of the market and private economy, it has not fully elaborated the economic and, more specifically, productive role of the state. The following paragraphs discuss recent ES and CPE research to illustrate what we deem an incomplete theorization of the economic role of the state. We also highlight more satisfactory, if incipient, views of the state on which we draw.

Economic sociologists reject traditional disciplinary boundaries. Following Granovetter's (1985) notion of embeddedness, the New ES rejects mainstream economic theory's artificial concept of the market. Against theorizations of economic agents as isolated self-interested utility maximizers, it argues economic action is embedded in networks of interpersonal relations (Aspers & Dodd, 2015) and highlights the political dynamics of markets (Avent-Holt, 2012; Fligstein, 1996). However, in its Granovetterian, Bourdieusian (Fligstein, 2001) or Callonian (Callon, 1998; MacKenzie et al., 2007) versions, the New ES emerged mainly as a sociology of markets and tended to preserve dualist thinking of states and markets as analytically separate spheres with autonomous logics (Krippner & Alvarez, 2007; McFall & Ossandón, 2014). Other economic sociologists, most notably Block, promote an alternative Polanyian understanding of embeddedness and mobilize the 'always embedded economy' concept to stress that state action is indispensable for market economies' existence (Block, 2003, p. 299). They mention the need to recognize welfare state spending as an economic input with productive consequences (Block, 2018; Block & Evans, 2005; Morel et al., 2012). This, however, has not been matched by corresponding empirical research on the matter.

Fiscal sociology stresses the interdependence between state and economy (Tilly, 1990). First, revenue sources shape modern states' character, scope, and actions (Campbell, 1993, pp. 176–177; Goldscheid, 1925/1958; Martin & Prasad, 2014, pp. 335–336). Second, fiscal sociologists refrain from essentialist definitions as, with Weber, they argue the state cannot be defined by what it does. Aprioristically defining a natural field of state action is impossible (Schumpeter, 1918/1991, p. 111; Ebner, 2006). Third, however, contemporary fiscal sociologists generally conceive the state as economically unproductive. Extracting economic resources from the private economy is the state's only lifeblood. Accordingly, rulers are sometimes theorized as predatory agents seeking to maximize revenue extraction (Levi, 1988, p. 3). The new fiscal sociology presents a slightly different case. They see taxation as part of a social contract 'in which taxpayers give up resources in exchange for collective goods that amplify the society's productive capacities' (Martin et al., 2009b, p. 14). Empirical research, however, has not developed this insight. While sociologists have provided valuable knowledge on the politics of tax cuts (Prasad, 2018), on fiscal citizenship (Mehrotra, 2017), and have acknowledged taxation's macroeconomic effects (e.g., Campbell, 1993; Weir & Skocpol, 1985), they tend to adopt an exclusively political theorization of the state, overlooking state productive practices.

Within contemporary CPE, the VoC approach is the most visible strand challenging market-oriented economic analyses. A firm-centric approach, VoC sees competitiveness as the key to economic performance and highlights how market arrangements, non-market types of coordination, and institutional complementarities shape national varieties of capitalism (Hall & Soskice, 2001b). Following New Keynesian economics, VoC advances a supply-side notion of growth and leaves demand considerations out. They distinguish between liberal and coordinated market

economies according to whether firms coordinate their activity primarily through market or non-market arrangements. State action, particularly regulatory regimes, is significant for economic outcomes in so far as it shapes and reproduces critical structures like labor market institutions (Hall & Soskice, 2001a, p. 4). The state stabilizes and recreates the institutional structures that organize private economic interactions. But VoC conceptualizes the state as unproductive. Private firms are the main productive force and the key agents of economic adjustment. The state is ‘institution-sustaining’ (Weiss, 2010, p. 194). It influences national institutional arrangements through regulation (Schmidt, 2009) but does not engage in (productive) economic action itself.

The GM approach is an emerging alternative to VoC. It distinguishes national growth models according to the relative importance of GDP-growth components and their inter-relations (Baccaro & Pontusson, 2016, p. 176). Taking inspiration from post-Keynesian economics, GM emphasizes the demand side of the economy, growth model instability, and power struggles. Besides allowing for market and non-market types of coordination, distributive struggles are critical for growth models’ trajectory. The reproduction of inherently unstable growth models depends on state action or policy regimes being consistent with the policy paradigm of the dominant growth coalition irrespective of governments’ partisan color (Baccaro et al., 2022; Baccaro & Pontusson, 2016, p. 201). But the GM has a limited and undertheorized productive state (Amable, 2023). Baccaro et al. (2022, p. 37) note that fiscal and monetary policies ‘can stimulate investment and productivity growth’, but empirical analyses mainly distinguish between debt-led and export-led growth models, and there is hardly any exploration of the possibilities of state-led growth. Among the exceptions are Kohler and Stockhammer (2022), who highlight fiscal policy as a growth driver in the post-2008 period. Tan and

Conran (2022) similarly discuss the role of the state in China's hybrid growth model. But this has not led to a broader theorization of the role of state actions in economic growth through the effects of state economic practices in the demand and supply sides of the economy.

Overall, political economists have been in a long struggle to escape from mainstream economics' (liberal) interpretation of the state but have been unevenly successful. While they highlight power relations within markets and the embeddedness of the market economy, the economic role of the state has not been systematically reinterpreted. This holds for ES and CPE. Again, at the fringes, e.g. in Block (2008), we find different views of the state, which we build on.

### **3 Sites and practices: locating state activities**

This section contextualizes state activities within society at large. To locate state activities, we build on Bowles and Gintis' (1986) distinction between sites and practices. Sites of social action are aspects of social life organized by a coherent set of rules of the game like the market sector, the liberal democratic state, and the patriarchal family. Practices are group or individual attempts to transform some aspect of social reality—e.g., political, appropriative, distributive, and cultural practices—and may take place in the state, market sector, and patriarchal family alike. Bowles and Gintis (1986, p. 100) use this to criticize liberal and Marxist theories' presumption of a one-to-one correspondence between sites and practices. We use a simplified version of their framework, depicted in Table 1, and distinguish between state, market, and household sites, and political vs economic practices.

Bowles and Gintis criticize essentialist notions of the state as a site of political practices (cell 1,1) and of the market sector, comprised of private firms, as a site of

economic practices (cell 2,2). Their own work illustrates that there are power relations (political practices) in the market sector. Much of ES and CPE similarly elaborates on the political and institutional embeddedness of private economic activities. Thus, most political economy efforts have gone into cell (1,2) of Table 1, highlighting, for example, the existence of hierarchy and command in the firm. Often, political economists also explore how the state shapes market economic activities, mostly focusing on practices that, while having both political and economic dimensions, present a more explicit political side like regulation, taxation and redistribution. This is, we argue, an incomplete theorization of state economic practices. In contrast, this paper aims to foreground and theorize the economic role of the state and is thus focused on cell (2,1). In so doing, we follow feminist scholarship, which represents the main exception to site essentialism and highlights gendered power relations and productive practices in the household site, thus focusing on cells (1,3) and (2,3).

[Table 1]

We call for theorizations of the state as the site of both political and economic practices. This not only means that the state is part of the economy—or, by the same token, that it is not possible to think of markets without their state-backed social and institutional context—but also that the state itself facilitates economic activity, provides specific (productive) inputs, and performs productive practices. We stress the need to appreciate the wide range of economic state activities and the productive nature of many of them. This, we argue, will help bring the economy back into the state.

#### **4 Mapping state activities**

This section provides a broad survey of the range and significance of state economic activities. We mobilize a comprehensive notion of the economy: economic processes

are the production, reproduction, allocation, and distribution of goods, services, and wealth. This definition is broader than market transactions and acknowledges that production occurs inside and outside the market. The need for a comprehensive notion of the economy has been forcefully argued, among others, by feminist economists (Folbre, 2024; Onaran et al., 2022) who have raised the issue of unpaid household labour, the value of which (according to the valuation method) typically corresponds to a third or half of GDP (Miranda, 2011; Waring, 1988). This perspective is a helpful precursor for a satisfactory analysis of state economic activities, as it encourages identifying them independent of how they are treated in the National Accounts—on which more below.

Table 2 categorizes the dimensions of state economic practices. The economic effects indicated in the table are those we deem to be clear and direct—as opposed to context-dependent—effects. We try to be as conservative as possible in our scoring of economic effects. The rows represent areas of state activity as commonly defined by different policy domains (e.g., monetary policy, fiscal policy, etc). They are non-exhaustive examples for illustration purposes only. The columns are economic functions of state activities. These are: (general) preconditions of production, inputs in production processes, direct production, allocation (composition of production), the volume of production, and distribution. This classification is more novel and intended to be comprehensive. It also serves to illustrate our analytical differences with standard economics and political economy approaches. While the last three items (composition, volume and distribution) correspond to Musgrave’s allocative, stabilising, and distributive functions, the first column (general preconditions, including regulation) and the last one (distribution) are usually the focus of political economy. It is columns 2 and

3, the inputs for production processes and direct production that are most often overlooked.

[Table 2]

We illustrate these functions by briefly discussing different areas of state activity and highlight some relevant literature that assesses their economic importance. The state is at the foundation of the contemporary monetary and financial system. Government debt is at the basis of a complex set of private financial transactions and forms the main safe asset. Interest rates on government debt form the base rate to which other interest rates relate. This means that while money creation is endogenous, the state is the key foundation for the operation of the banking system (Ingham, 2004). Similarly, as the 2007-2009 Global Financial Crisis made clear, states provide critical guarantees for bank deposits and stand ready to rescue banks deemed systemically necessary. Indeed, one of the key reasons why the crisis did not become a rerun of the post-1929 Great Depression was the determination of governments and central banks to avert systemic financial collapse via aggressive cuts in policy rates and liquidity creation (Eichengreen, 2015, pp. 1–14; Piketty, 2014, p. 599; Tooze, 2019). States' role in financial stability became explicit with the expansion of central bank mandates to include a macroprudential financial regulation on top of conventional inflation mandates (Thiemann, 2022). Overall, insofar as government debt underpins private financial transactions and balance-sheets, the viability of the financial system is structurally tied to the state (Stockhammer & Onaran, 2022). In terms of Table 2, in the financial sphere the state provides general preconditions of production and influences the volume of production.

The state is also a key macroeconomic player with fiscal policy. Until the rise of central banks as primary macroeconomic managers, discretionary fiscal policy was the

main government tool for demand management and an important growth driver. Whilst Keynesian demand management went out of fashion during the neoliberal decades, it came back with a vengeance, even if politically contested, in the Global Financial Crisis and COVID crisis. In this context, economists have found that discretionary fiscal policy can have short- and long-term positive effects in recessions. Fiscal multipliers are higher in a recession than in normal times because of the absence of supply constraints, and fiscal policy might impact long-term economic growth through hysteresis—the long-term effects of temporary measures (Delong & Summers, 2012; Fatás & Summers, 2018). The negative long-term growth effects of fiscal consolidations since the financial crisis also vindicate fiscal policy’s macroeconomic stabilization role. As the IMF stated, fiscal consolidations implemented in times of subdued economic activity are self-defeating and tend to worsen the debt-to-GDP ratio (IMF, 2023, Chapter 3). In terms of Table 2, via fiscal policy the state provides general preconditions of production and impacts the volume and distribution of output.

State-owned corporations remain part of states’ economic activity. OECD (2017) estimates for a sample of 39 countries show that central-government-owned enterprises are valued at \$2.4 trillion and employ more than 9.2 million people. While significantly less than before the 1980s, variegated forms of state ownership of economic entities still exist in rich and non-rich countries. Some scholars argue this questions the analytical value of traditional ‘geographical imaginaries’ that deem state-owned enterprises a feature of developing, not rich, economies (Alami & Dixon, 2024, Chapter 2; Kim, 2022). In any case, state-owned corporations played an interesting if counter-intuitive role in the turn to neoliberalism. As Edgerton stresses for the UK, the 1980s privatization of valuable assets like state-owned utilities, transport industries, energy industries, public housing, and many other manufacturing enterprises should not

be seen as a reaction to the deadweight of excessive and failed state ‘intervention’; they were ‘only made possible by previous state investment, by the success of the state, not by its failure’ (Edgerton, 2018, p. 454). In terms of Table 2, state-owned enterprises’ impact depends on the sectors they operate in. At a minimum they constitute direct production and will affect the volume and composition of production.

Innovation and industrial policies have recently regained attention. Mazzucato (2013/2015) has shown that, historically, states have been key actors in wealth creation. The state often acts as lead entrepreneurial risk taker and market shaper: it commonly is the key enabler of long-term investments that combine high risks and low short-term returns, engaging in activities unattractive for private investors and creating new markets. With the term ‘hidden developmental state’, Block and others show that even in the US the dominance of market fundamentalist ideas did not prevent the state from significantly expanding its capacities to foster technological development. Industrial policies are not something of the pre-neoliberal decades and in fact remain, in variegated forms, key drivers of private sector dynamism. The US Federal government has played an ‘increasingly important role in underwriting and encouraging the advance of new technologies in the business economy’ (Block, 2008, p. 170). Similarly, Mertens and Thiemann (2019) trace the rise of a hidden investment state in the European Union, where there has been a significant expansion of national and regional development banking since the Global Financial Crisis (Mertens et al., 2021). In Table 2 terms, innovation policies provide productive inputs and impact the volume of output; industrial policies impact composition.

An area often analysed by ES and CPE, but not usually interpreted as a productive state activity, is social infrastructure provision. State expenditures on education, health and other social items are substantial and larger in richer countries.

Lindert (2004) stresses the productivity-enhancing effects of some social spending programs, most notably state-provided education, care support and health. He shows that high social or welfare spending does not harm economic growth. Economists analyse education in the context of individualistic human capital theories and routinely control for education levels in growth regressions explaining cross-country growth performance (e.g. Barro, 2013; Mankiw et al., 1992).<sup>5</sup> A more concerted effort to theorize the economic impact education and healthcare is that of feminist economists. Mobilising the notion of the care economy, they highlight that much of the work involved in human reproduction is done via unpaid labour mostly performed by women. Feminists argue that such work, whether performed as unpaid labour or via the state, contributes to social infrastructure and positively impact private-sector productivity (Seguino, 2012).<sup>6</sup> Indeed, paid care work is disproportionately state-organized. Thus in gendered macroeconomic models the state contributes to social infrastructure, which has a positive effect on long-term economic growth (Onaran et al., 2022). State-provided social infrastructure represents inputs into the production process and impacts its productivity and volume.

One important area of state activity has long been physical infrastructure provision. This is recognized by economic historians, most famously Gerschenkron (1962).<sup>7</sup> Public capital stocks are sizable, even if they have declined. For example, USA (real) public capital stock reached 101% of GDP in 1960 and declined to 60% in 2018 (IMF, 2022). Public (physical) infrastructure became a prominent issue in economics in the late 1980s and early 1990s. Aschauer (1989a, 1989b) finds that government non-military expenditures have a positive effect on productivity, with core infrastructures—streets, highways, airports, mass transit, sewers, water systems—having a particularly strong impact. Aschauer (1989b) reports that in net terms, public investment crowds in

private investment. These findings led to an intense debate, with some support and some criticism (see Gramlich, 1994 for a sceptical survey). Crucially, however, what is really contested here is not the positive effects of government capital stock and infrastructure itself, but rather its order of magnitude. For developing economies, several studies report substantial positive growth and productivity effects of public infrastructure and crowding in of private investment (Erden & Holcombe, 2005). Arslanalp et al (2010), in a panel analysis for 48 OECD and non-OECD countries, find positive effects of public capital stock on economic growth.<sup>8</sup> For advanced economies, the IMF highlighted public investment's positive effect in its flagship World Economic Outlook 2014. Via physical infrastructure the state provides general preconditions of production, but also inputs and influences its volume.

State economic activities are wide-ranging. These go from providing general preconditions of economic activity at large to providing production inputs. The state also influences the volume, composition and distribution of output. Our overview makes clear that the state's role is not modest. Whether it is the financial system, skills provision or macroeconomic stabilization, the state is a major economic player. In many areas state activities are so large that it acts as backstop or pace-setter for the economy overall rather than filling in some minor gaps. The following section further explores a more specific argument: that the state is also economically productive.

## **5 The productive role of the state**

After mapping economic state activities, this section argues that a large subset of these are productive. Activities are productive if they increase the overall social provision of goods and services (often in the future). In contrast, consumptive activities use up existing resources. Our comprehensive notion of the economy recognizes that markets,

households and the state are interwoven economic sectors. Standard economic models treat the private (market) sector as productive and relatively independent of other sectors. Households and the state are mostly regarded as consumptive rather than productive. If they produce, it is for immediate consumption. In contrast, from our perspective, the state and households require inputs (and income) from the market sector, but also provide services, in particular social and physical infrastructure, that serve as inputs for market-sector production processes.

While identifying which activities are productive may be difficult in some cases, we stress that some sufficient conditions are straightforward. A (positive) impact on the productivity of market-sector production is sufficient to classify state activities or infrastructures as productive, as they increase society's output. We conservatively use GDP as a measure of a society's output. While this will understate actual output as non-market activities are excluded or imperfectly measured, it allows us to draw on a wide range of empirical studies on the impact of state activities. Education levels are now routinely included in cross-country growth regressions (e.g. Mankiw et al., 1992).<sup>9</sup> As much of this education is state-provided, this means that some state activities are economically productive. Similarly, the productivity of private capital stock seems to depend positively on the extent of public sector capital stock (Aschauer, 1989b). More generally, some historical political economists stress that high-capacity states can foster economic development and enhance productivity (Beramendi, 2022). Higher state capacity measured by ability to tax comes with higher subsequent growth (Dincecco & Wang, 2022).

Here lies the core difference between our argument and Musgrave's conception of the state, which underlies much of mainstream contemporary approaches: We regard private (and public) sector production to be routinely using various state-provided

production inputs like social and physical infrastructures. This also clarifies the difference vis-à-vis conventional Polanyian approaches: state activities provide not just general structural preconditions for production, but inputs in production processes and their effects have been empirically measured (see section 4). States are not just regulating and redistributing but positively contributing to social production.

There are several reasons why the productive role of the state has been underappreciated and undertheorized. The first and overarching one stems from the legacies of the disciplinary division of labour between economics and other social sciences, which encourages state essentialism and thus precludes economic readings of the state. Second, more specifically, a focus on market transactions makes state and household productive practices invisible. The National Accounts fully exclude unpaid housework and undervalue state economic activities. State production (labelled ‘government consumption’) is valued at production costs—i.e., the wage costs of government employees. By definition they do not generate profits. There is, of course, some obvious truth to this in that states do not usually generate profits and, indeed, their output is often not traded in the first place. However, when it comes to the economic ‘value’ of state production, this creates a bias. If state services, say rail transport, get privatized, they will have to generate profits; firms will charge a mark-up on their production costs. Thus, their prices have to be higher than the same state-provided service (or the relevant wages have to fall), even if the services provided are identical. This price increase does not reflect an increase in the social surplus (as services are identical), but causes a change in distribution between firms and the general public. Indeed, in many cases the benefits of state activities, e.g. incomes generated by higher productivity due to education, will accrue to the private sector.

A third reason why the productive aspect of state activities is often overlooked is that analyses of production commonly consider production inputs from the perspective of the firm. State-provided infrastructure is ignored when it is not associated with firms' costs and if it is equally accessible to all firms. But factors like physical and social infrastructure impact production (or productivity). Whether paid or unpaid, once one considers larger geographical units, it becomes apparent that the workforce's skills and health, or the access to electricity and roads, differ substantially across regions or countries and this, unsurprisingly, impacts firms' productivity and thus the overall output of an economy.

One of the few social science approaches that treat the state as economically productive is Michael Mann's historical and comparative sociology. It posits four distinct and interacting sources of power (military, economic, political, ideologic) which have their own social infrastructures. A general theme is that the different power networks create social infrastructures that can be used by the others: what is set up as a military infrastructure can become useful for other power structures, say the economy (and vice versa). As an illustration, he uses the term 'military Keynesianism' to describe the economic impact of empire formation, and argues that the Roman legions not only provided security (and coercion) but also created infrastructures, in particular roads, bridges, and engineering and construction services more generally that enabled the flow of goods as well as enabling the spread of ideas (Mann, 1986/2012).<sup>10</sup> In the language used in section 3, Mann highlights that there are multiple sites that engage in various practices. Among these are productive economic practices in the site of the state.

Our insistence that many state activities are productive means that they increase society's net output. This, of course, does not mean that there are no differences between some of these and market production. Unlike private, profit-seeking economic

activities, state activities are often not directly economically (let alone profit) motivated. Historically, roads and railroads were often built with military considerations in mind. Health policies often pursue social equality or human dignity considerations—e.g., providing certain minimum standards. There are some cases, like the Asian developmental states, where states pursued explicit economic aims. But, more commonly, states engage in economic activities with non-economic goals. Short, we argue that while the state often does pursue different goals and follow a different ‘logic’ than private sector economic actors, it nonetheless engages in economic (and sometimes productive) activities.

Overall, states are economically productive, just like the market and household sectors. Standard economics recognizes allocative, distributive and stabilizing functions. Contemporary political economy usually stresses that states provide (general) preconditions for production and impact distribution. We add inputs in the production process like state-provided social and physical infrastructures, particularly education, health, transport and communication infrastructures. They perform similar functions as machinery (measured as the private capital stock) and, therefore, are economically productive.<sup>11</sup> We have been conservative in the scoring of economic effects: at a bare minimum, state-owned enterprises, innovation and industrial policies, and social and physical infrastructure provision stand out as examples of state practices that are economically productive.

## **6 Conclusion**

This paper provides a framework for identifying and thinking about economic state activities. It has argued, firstly, that the state is a major player in the economy and, secondly, that the state is productive. Our framework encompasses and goes beyond the

usual functions of regulation, allocation, stabilization and distribution. States not only provide general preconditions for the economic activities of other sectors; they produce inputs for production processes. Once one moves beyond firm-centric conceptions of production, it becomes obvious that these state activities impact the volume of output and influence the productivity of the private sector. This is sufficient to classify them as economically productive. Thus, state-provided physical and social infrastructure are productive. In addition, the state engages in production directly, e.g. via state-owned enterprises. The state is not just filling in some gaps (so-called market failures), but is powerfully shaping the economy. It is an economic and productive actor in its own right.

This differs significantly from contemporary political economy, which mostly focuses on regulation, taxation and redistribution. While economic sociologists and comparative political economists have successfully critiqued conventional notions of self-contained markets void of power relations, they tend to analyse the state almost exclusively as a political (rather than economic) creature and neglect its economic activity. In particular they have not analysed the state as productive. The New ES has mostly been a sociology of markets. It needs to enlarge its analytical scope to systematically analyse the state as a site of economic and productive practices to gain a holistic understanding of the social foundations of the economy. For example, the emerging social studies of central banking have recently centred the state and showed central banks' role instituting the state-economy boundary and providing a backstop to the financial system (Braun, 2020; Coombs & Thiemann, 2022; Thiemann, 2024). This, however, begs the question: what are the production consequences of different modalities of state action in the financial system?

For CPE, the most important implication is the need to recognize the state's ability to shape production and growth trajectories. CPE needs to extend its analysis of the state's role in the growth process on both the demand and supply sides. In the case of GM, scholars should identify the role of the state within growth models (e.g., in terms of growth drivers). Much of GM (e.g. Baccaro & Pontusson, 2016; Hein et al., 2021) use government consumption as a measure of the state impact on growth, which does not capture, e.g., the growth impact of expansionary fiscal policy (e.g. Kohler & Stockhammer, 2022). Similarly, as GM's supply side analysis is currently underdeveloped, there is no recognition of the government's productive activities like infrastructure provision. While our approach has been critical of broad sways of political economy research, it also builds on and expands on a wide variety of political economists and economists (e.g. Aschauer, 1989a; Bowles & Gintis, 1986; List, 1841/2001), sociologists (e.g. Block, 2008; Mann, 1986/2012), and shows proximity to some feminist economists (Onaran et al., 2022).<sup>12</sup>

Our argument that the state has long engaged in economic activities and co-shaped the growth path of the (private) economy has implications for a broader set of debates than those discussed here. Take the example of the emerging literature on state capitalism, which attempts to theorize the apparent rise of state activities over the past decade of waning private sector dynamics (Alami & Dixon, 2024). Our argument suggests, first, that analyses of the state should be put into a comprehensive economic framework that recognizes non-market sectors and their productive contributions. Second, that contemporary state attempts to shape economic developments should be regarded as the historic rule rather than the exception.

The argument has important political implications as well. Once the state is recognized as an economic and productive agent, usual arguments that it cannot afford

to finance certain activities need to be reassessed. Many state activities are investments that impact the future productivity of society and are thus to some extent self-financing. They should be conceived of (and treated in accounting terms) as investment. This is immediately relevant for debates on the provision of many social services (e.g. child care, health, etc), but it also gives a very different picture of the potential role of the state in the energy transition necessary for decarbonization. Rather than focussing on fixing relative prices, our approach suggests that state has long provided critical infrastructures for private production and would thus be naturally positioned to lead the energy transition.

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### **Notes**

- <sup>1</sup> The New ES emerged in the 1980s when economic sociologists set to study economic phenomena from a sociological perspective in rejection of the traditional boundary delineating disciplinary jurisdictions between economics and sociology.
- <sup>2</sup> Schmidt (2009) brings the state back in to put the political back into political economy. Her essay has a lot to say on the state as polity, policy and politics, but does not systematically reflect on the state as an economic actor. Conceptually she gets close to our argument as one of her axes in Figure 1 describes one possible role of the state as ‘[for the state to] do instead of market actors’. However, the main parts of the essay do not elaborate this.
- <sup>3</sup> Stiglitz and Rosengard (2015), another widely used textbook, mentions state production in the case of natural monopolies.

- <sup>4</sup> List's notion of productive powers has some similarity with (neoclassical) human capital, but his isn't an individualist notion. His list of factors that generate productive powers is quite extensive (p. 135) and arguably lacks analytical clarity. Furthermore, he does not distinguish clearly between the nation and the state.
- <sup>5</sup> Several recent studies build on Mushkin (1962) and confirm that health expenditures have positive growth impact (e.g. Bloom et al., 2004).
- <sup>6</sup> The feminist development literature highlights that female empowerment can have positive growth impacts (Kabeer & Natali, 2013).
- <sup>7</sup> Allen (2017) includes infrastructure (in particular railways and canals) in the 'standard model' of 19<sup>th</sup>-century late-comer industrialization. The literature on state capacity is a response to simplistic (small-state) interpretations of European industrialization and highlights that European states had higher expenditures than other areas (in particular larger than China. See Vries, 2015). Historians thus have argued that state expenditures have been a major driving force for innovation and industrialization (Acemoglu et al., 2016; Dincecco & Katz, 2016; Kohli, 2004).
- <sup>8</sup> On the theory side, Ageron (2010) presents a model of infrastructure-led development, based on endogenous growth theory.
- <sup>9</sup> The standard neoclassical production function includes labour inputs and the (private) capital stock. Only in some specific contexts are the impact of public goods or infrastructures considered. In the neoclassical language, we argue that the public infrastructure and household services are a production input and pervasively impact private-sector productivity.
- <sup>10</sup> The term military Keynesianism is a productive misunderstanding. In fact, it is not Keynesianism because its main impact is on the supply side, creating new productive resources, instead of the demand side—the utilization of existing resources. But, for our purposes, this is secondary.
- <sup>11</sup> This is not to say that any state activity or state-created infrastructure is productive per se. That depends on the circumstances. As with private investment, there can be too much or the wrong sort of government activity. Neither the state nor the private sector are immune to misinvestment.
- <sup>12</sup> The list is openly non-exhaustive and only illustrative.

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Table 1. Sites and practices: locating state activities

|                  |                            | <b>Sites</b>  |   |   |
|------------------|----------------------------|---|---|---|
|                  |                            | <i>State</i>  | <i>Market sector</i>                              | <i>Household / family</i>               |
| <b>Practices</b> | <i>Political practices</i> | policing, hierarchical state-bureaucracy, regulation, redistribution  | hierarchy & command in the firm                   | gender subordination                    |
|                  | <i>Economic practices</i>  | state influencing private production, regulation, taxation, redistribution, production of goods and services by state | production of goods and services by private firms | household production, unpaid care labor |

Table 2. Economic functions of state activities

|                                  |   | Economic functions of state activities       |                                       |                          |                                  |                             |                     |
|----------------------------------|---|--|---------------------------------------|--------------------------|----------------------------------|-----------------------------|---------------------|
|                                  |   | <i>(General) preconditions of production</i> | <i>Inputs in production processes</i> | <i>Direct production</i> | <i>Composition of production</i> | <i>Volume of production</i> | <i>Distribution</i> |
| <b>Areas of state activities</b> | <i>Monetary policy</i>                                | X  |                                       |                          |                                  | X                           | X                   |
|                                  | <i>Fiscal policy</i>                                  | X  |                                       |                          |                                  | X                           | X                   |
|                                  | <i>State-owned enterprises</i>                        |  |                                       | X                        | X                                | X                           |                     |
|                                  | <i>Innovation and industrial policy</i>               | X  | X                                     |                          | X                                | X                           |                     |
|                                  | <i>Social infrastructure (education, health care)</i> | X  | X                                     | X                        |                                  | X                           | X                   |
|                                  | <i>Physical Infrastructure</i>                        | X  | X                                     | X                        | X                                | X                           |                     |