Controversies Regarding the Economic Part Played by the State in Economy

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Abstract. *One of the important matters of the economic theory and practice is the relation between the state and the economy. For more than 200 years, the economic thought has been dominated by controversies regarding the economic part played by the State. There have been created many theories. Taking as a starting point the economic and social realities, the supporters of various trends have tried to find arguments in favor of or against the involvement of the State in economy, to justify the cases in which it is necessary for the Sate to intervene in economy or to suggest that the State should not intervene in economy.*

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It is a well known thing that the central pillars of the economic thinking are Smith, Max and Keynes. The first described the positive aspects of the liberal economy; the second identified the contradictions which caused its downfall, suggesting its replacement with the planned economy whereas the third presented the solutions for avoiding this downfall by means of the state, setting up the controlled economy.

The economic liberalism is characterized by the fact that the State must not interfere in the economic life. Adam Smith, one of the founders of the liberalism theory, supported the individual's sovereignty and the self-regulatory character of the market. He showed that there is "an invisible hand" which makes the individual producers to promote the society's interests. He agreed with the State's intervention only if there was no private interest for producing certain goods, as it is, for example, the case of some infrastructures or education. This liberal doctrine lays stress on: private property, free actions, free relocation of the production factors from one sector to another depending on the price level, the noninvolvement of the State in the economic life, its part being limited to that of a night guard, the fulfilling of the general interest by means of the free game of individual activities (Todosia, 1992, p. 68).

According to Smith, the economic part of the State can be limited to three very important duties (Smith, 1962, pp. 43):

- "the duty to guard the society against any attack or invasion coming from other independent societies";
- "the duty to make justice";
- "the duty to put into practice and keep in good shape certain public works which cannot be kept in good shape by an individual or by a small group of individuals".

Another classic economist who continued Smith's ideas was John Stuart Mill. In his essay "About Freedom", Mill proves to be against any tyranny against an individual, even if that tyranny is the tyranny of majority. That is why, even if his predecessors, being tolerant, accepted the State's intervention, minimizing the part it played, he did not agree with the State's intervention apart from the case of social need. But, the State's intervention accepted by Mill was meant to support the individual initiative and bearing in mind the principle of individual freedom: "a good government will grant its support in a way that will support and encourage the individual effort which is about to have positive effects" (Onofrei, 2000, p. 88).

As regards the State's intervention in economy, John Stuart Mill brought into discussion two new concepts: "externalities" and "public goods", concepts which will be accepted by the neoclassical school. Mill also pointed out the danger of expanding the bureaucracy when the administrative procedures are granted too much importance. This danger took the shape of governmental machinery which the more perfect it was, the more far away from the citizens' needs and interests were.

The neoclassic theory took over some elements of the classic liberalism paradigm. Its representatives were supporters of individualism, defenders of market economy and private property. They were against the

State's intervention in the individuals' economic activity and supported the free competition policy that is the policy of free exchange. The neoclassic economists consider society "an aggregate made up of autonomous, free, and equal individuals who have all in common the market as a means of coordinating their activity" (Dodescu, 2000, p. 70).

Thus, in accordance with the neoclassic economists, the State's involvement in economy is justified only in those situations when the market proves to be unable to solve its problems by itself: creating some public goods (national defense, justice, police, public lighting, etc.) and externalities (effects caused by the activity of a company on the utility or profit of some other companies, except some market transactions). The State must ensure the collective goods for the individuals, financing them by means of a system of taxes, but the taxes should not have been a hindrance for the economic exchanges and should exclusively have been used to cover the public expenses. At the same time, the State should take an active part for even up the externalities to a competitive activity.

A strong attack against the liberal theory and capitalism came from Karl Marx, who conceived a new manner of approaching and analyzing the economic matters. His economic opinions, mainly reflected in his masterpiece called "The Capital", lay the foundations of a theory about the dynamics of capitalism, of the capitalist means of production. The research made on capitalism, makes Marx draw the conclusion that this "social order" is doomed to come to an end because the contradiction existing between the collective way of production and the individual manner of approaching the results of production. The natural conclusion from the point of view of the Marxist determinism was the replacement of capitalism by a new order: that of socialism.

In the case of the Marxist theories there are two different approaches regarding the State and the part it plays in economy and society. On the one hand, the very existence of the State is disputed, as communism is a society without social classes and state and, on the other hand, its existence is connected to the division of society into social classes, the State being an instrument which serves the dominant class. In practice, in most of the communist countries, the Marxist theory meant the State's intervention in all the fields of the social-economic life, by excessively centralizing the decisions and reducing the companies' initiative and freedom of action. The tools used were administrative and bureaucratic.

Contemporary economic thinking has a new view over the economic part of the State. The Keynesian revolution is the turning point. After this moment, the ways in which the Sate involves in economy has evolved under the impact of changing the environment, of the public authorities' priorities but also of the theories which support the economic policy (Dodescu, 2000, p.71).

Admitting that the market is incapable to self-adjust anytime and automatically by its own mechanism and by free competition, John Maynard Keynes suggested that the State's mechanism should be doubled by the State's intervention, in view of correcting the periodic unbalances and of avoiding their amplification. He had in view to prevent some negative aspects of economy and markets by means of an active intervention of the State.

Taking as a starting point the economic, social and political reality in the capitalist world of the '30s and '40s, Keynes drew up a more complex theory which moves the economic analysis from the microeconomic level to the macroeconomic one. The objective of this theory is "the analysis of the functioning mechanism of the market economy in view of making it sustainable, diminishing or eliminating its unbalances in the circumstances in which one cannot put into practice the idea of its balancing by means of the price mechanism" (Sută-Selejan, 1994, p. 183). Being a defender of capitalism, Keynes sets as his goal to save it by means of the State's intervention in the economic life. In accordance with Keynes' opinion, the State is considered a specific company whose intervention is legitimate in enforcing three major functions: the production or allocation of goods and services, the income's redistribution, the economic stability.

According to Keynes, the only means by which the imbalances can be eliminated is the expansion of the democratic State's functions. The central goal of its measures will be the full employment. The State's intervention in economy for solving these imbalances has mainly a social goal, as Keynes said: "the main drawbacks of the economy in the society we live in are its incapacity to assure the full employment and the arbitrary and unfair distribution of wealth and income" (Keynes, 1970, p. 375). The State's action is achieved by discouraging the savings and encouraging the expenses, especially the public expenses in view of increasing the real demand by using two economic-financial leverages, like the monetary policy and the budgetary policy.

The economic role of the State is, according to Keynes that of eliminating the market's defects in point of investments, as the market is incapable to show the entrepreneurs what is the level of investments which corresponds to full employment. "As the State is entitled to calculate the marginal efficiency of capital on long term and by means of the community's social interests, we think it should take an increasing responsibility in direct organization of investments" (Keynes, 1970, p. 63).

Between the two world wars, the expansion of the economic part played by the State meant, a volume increase of the public finance as well as a change in the nature of the public finance. The State's interventions, which are very numerous in the present, are no longer entirely based on the public finances, but they also have in view measures for setting the rules of the economic game (drawing up regulations having in view the competition, the length and the conditions of work, the minimum wages, the social protection, etc.) as well as the use of monetary policy tools. At the same time, the State also manages the public sector which develops a lot, containing, apart from the traditional public services (post, telecommunications, railroads, etc.) a series of state enterprises which manufacture goods in various fields (coal and ore drawing, metallurgic companies, car, plane, shipyards, nuclear power stations, banks, insurance companies, etc.).

By means of the public finances and monetary policy, the market economy countries, the State made interventions at the level of the economic activity, making public investments and private investments (by getting credits, subsidies, fiscal facilities), giving guarantees for the public sector which dealt with manufacturing goods, redistributed the incomes and fought against some illegalities. By its interventions, in this period, the State supported the achievement of an economic growth as powerful and balanced as possible, when the inflation, the unemployment and the commercial deficit were as low as possible.

Preoccupied by improving Keynes' theory, the economist Roy F. Harrod, in his paper "Towards a Dynamic Economic Theory", presents the pattern of balanced economic growth based on three rates of growth: real, natural and guaranteed. By means of Harrods's economic policy, the State's involvement in economy has in view to diminish the rate fluctuations. In order to eliminate these fluctuations, Harrod suggests that the State should intervene in the economy by means of the "stop and go" policy. This implies the use of the fiscal and monetary policy to stop the expansion ("stop"), when the economy moves too fast, by increasing taxes and the interest rate, and, when the economic activity stagnates, the State should stimulate ("go") it by diminishing taxes, increasing the money quantity that circulates on the market and diminishing the interest. The concrete means of involvement are public works, transactions on the monetary market, budgets over ten years (by means of which the surpluses obtained during the expansion periods cover the deficits in the recession periods, "muffin fund" of goods playing a regulatory part (set up during the recession periods and put on the market during the expansion periods).

In his theory, Harrod suggests that the public sector should evolve but, at the same time, he warns about the negative effects of an excessive involvement of the State: "so far, there has been the tendency to concentrate into the State's hands that huge work of making the most important decisions about the economic life of the country. In the future, such a system will have to be changed, because its incompatibility with the democratic control becomes clear" (Harrod, 1956, p. 165).

In the United States of America, the most important supporter of the Keynesian doctrine was Alvin H. Hansen. The American economist pleads for the reconstruction of a new market economy on the basis of some new institutions (Hansen, 1947, p. 132). He says that "what is being developing is the welfare State, not the State as owner or non-intermediated company. First of all, the welfare State is an income redistributors and an important buyer of the products manufactured by the private company. But all the work is done by the private company" (Hansen, 1957, pp. 147-149). Hansen considers very important the State's investments and the budgetary expenses, in general, as a means of fighting against crises. In the fight against crises and unemployment, he suggests that, among other things, the State's budgetary expenses, including the military ones, the taxes, the borrowings and other financial leverages should be used.

Another important step in the development of Keynesianism has been made by the American professor Paul Samuelson. He considered that the economic system in the western countries is a mixed one, belonging to the free entrepreneur, to the economic control of the society (by means of its specialized, democratic organisms) and to the private and public institutions, having monopolist tendencies. In the case of this mixed system, the control is secured by the simultaneous action of the private and public institutions by means of “the invisible orientation towards the market mechanism”, and also by means of “the organizational provisions and fiscal incentives” (Samuelson, Nordhaus, 1989, p. 38). The concrete objective of the State’s macroeconomic policy are: ensuring a high and increasing level of the real product, a high level of employment, of some high salaries for the persons that work, a level of the prices influenced by the free markets, of a stable foreign exchange rate. Samuelson’s opinion is that the State is not an useless relic, left from a previous epoch, because “it plays an essential part as it provides a climate that helps the markets thrive and eliminates the surpluses that appear when the markets have absolute freedom. The prosperity of a modern economy deepens on finding the balance and sharing the responsibilities between the markets and the State” (Samuelson, Nordhaus, 2000, p. 43).

The neoliberal economists have criticized the most the economic part played by the State that intervenes in the economy. The criticism of the classic and neoclassic liberalism made by the supporters of the State’s intervention in the economy has made the liberal economists to reexamine the liberal message in order to adapt it to the realities of the contemporary world. For liberals, the State is an agent preoccupied to make everyone respect the private property and the competition rules, to assure the broadcasting of the information which is useful for the companies as well as peaceful social relations, to be the representative of the country’s interests abroad, to assure that everyone respects the territorial integrity and to protect the goods and the persons in accordance with the laws. The State’s involvement is accepted only as an exceptional approach, caused by the inefficient or abuse of the private property.

Friedrich Hayek was the declared enemy of the State’s intervention in the economy and the supporter of liberalism revival. In the ‘30s, he argued Keynes. In his paper “The Way towards Servitude”, Hayek showed that one cannot accept the existence of a mixed system in which the market economy coexists with the State’s intervention and planning because “both competition and the centralized management become weak tools if they are incomplete; they are principles that provide alternative solutions for the same problem, but their mixture means that, in fact, none of the two will be really used and the result will be worse if we rely only on any of the two systems” (Hayek, 1994, p. 55). In his opinion, the individual freedom must be conceived and achieved only in the circumstances of a market economy. The State’s involvement is admitted only as a means of guiding the individual efforts. Hayek is categorically against the State’s intervention in the economy by means that prevent or alter the free functioning of the market mechanism, especially in the case of the price mechanisms, considering that these are causes of some economic crises. In his opinion, the State's role is that of creating conditions, by ensuring a legal juridical framework for an efficient competition among companies, as well as that of providing services necessary for the society but for which the respective companies do not obtain a proper profit, services which contain public policy, national security, etc.

Another important economist who has criticized the keynesist trend was Milton Friedman. He is a defender of the modern market economy based on the private property and on the individual freedom. In his opinion, the key for a good market economy functioning is the people's free choice. According to Friedman, the economic role of the State is "to make what the market itself is incapable of making all by itself" (Friedman, 1995, p. 40). In his opinion, the State must "keep the law and the order, to define the property rights, to be an instrument which changes the property rights and the other rules of the economic game, to solve the disputes referring to rules interpretation, to make sure the contracts are carried out, to promote competition, to supply a monetary framework, to eliminate the technical monopolies and to overcome the neighboring effects, to complete the individual charity and the family in protecting the persons that are not responsible" (Friedman, 1995, p. 50). In other words, in a free society, the State's functions are the following: solving the conflicts among different individuals, defining the property rights and ensuring some monetary order.

But, in the last decades, even the most fervent liberals consider that, however, in some respects, the State's intervention in the economy is justified to correct certain negative effects in the field of production and distribution, to facilitate the carrying out of the economic activity, by creating a stable monetary framework and assuring the collective services.

Other theoreticians, too, have had different opinions than Keynes. One of the most important economists of the XX century, Joseph Schumpeter, had original ideas which can not be included in one of the traditional trends. In his paper "Capitalism, Socialism and Democracy", Schumpeter investigates, making use of different tools than Keynes, the capitalism and the socialism. From the economic point of view, he shows that capitalism is performing, its performances being due to the large company: the promoter of the innovative progress. But, as the economic performances of capitalism increase, the large company disintegrates the social structures, attacking the basis of the institutional system of capitalism- the private property, destroying the system from within. Thus, the socialism will gain ground not because of its superiority but because of the failure of capitalism which is undermined from within by its own triumph.

In this context, Schumpeter's position towards the State is that of defending liberalism, fighting against the State's intervention in the economy. He foresaw that the price of success in the case of capitalism can be a weak public power and that is why he suggests a policy oriented towards the support of the "innovative spirit" and towards solving the social inequities by means of the capital gains tax.

One of the contemporary economists which enjoy a huge reputation is John Kenneth Galbraith, who has an original vision on the contemporary capitalism using the concept of institutional organization. According to him, the economic system functions as an answer to the market demand. But in the cases in which this answer is inadequate or imperfect, the State must intervene to correct the demand and to harmonize it with the public interest. In his paper "The Perfect Society", Galbraith says that "without the government's intervention, a modern economy can not reach performance and can not continuously progress" (Galbraith, 1995, p. 25). In this respect, he shows that there is a wide range of economic activities in which the market is not competitive, as well as a wide range of activities in which the State's services and functions are either necessary or superior on the social level.

According to Galbraith, there are four factors that require a State's intervention and control. These factors are:

- the need to protect the planet in the present and in the future, certain regulations that prevent the environment destroying;
- the necessity to protect the most vulnerable employees working in the productive sector against the negative effects of the economic mechanism;
- the frequent tendency of the economy to produce and sell goods with technical deficiencies or which can lead to physical prejudices;
- the system's inclusion of some self-destroying tendencies which destroy its own functions having a certain efficiency.

Each of these factors generates a conflict between those that consider the system an independent force and those that consider some corrective and protective measures as positive measure.

The analysis of various countries' development strategies confirm some knowledge provided by the evolution of the economic theories, that is the fact that there is necessary a certain convergence towards a balanced view of the State-market relations, eliminating the extreme attitudes which have occurred in this field. Therefore, the State and the market can not be opposed. None of these institutions can replace another. They must be complementary.

From the moment of its coming into being up to the present, the State has been forced to make a difficult choice: freedom or control? The specialized literature calls this choice "the dilemma of the modern era" (Chirot, 1996, p. 218) and it consists in the difficulty encountered by the modern society to choose freedom, sacrificing the society's chances of survival, or to choose control, sacrificing the individual freedom.

Thus, on the economic level, there appears the problem of choosing between the supremacy of the market and the State's noninvolvement or the supremacy of the State over the market. Reality has proved that choosing the individual freedom and the free market is better than choosing the coordination of the economy by the State. At the same time, it is well-known fact that the individual freedom is not the guaranty of the social adhesion, that the individuals need social support and the free market needs a stabilizing support from behalf of the State. As a result, it is accepted the fact that the free market and the State are complementary factors of the economic system and the prosperity of a modern economy depends on finding the balance and sharing the responsibilities between the markets and the State (Samuelson, Nordhaus, 2000, p. 43).

Therefore, it is obvious that in a market economy, the government has economic and social responsibilities. All modern market economies are mixed economies, in the sense that whereas most economic decisions are taken without the government's intervention, certain decisions are taken by the government out of different reasons, such as those of assuring stable rules which protect the private property, the effective competition and the free exchange of goods and services, a legal framework in which the companies carry out their activities. The civil service's support is, even in the market economy, vital for the development of the economy. Governments play another important part in regulating the market economies and in human development. This does not prevent but accelerates the economic growth and makes it more sustainable.

In the democratic system based on the market economy, the State is the one that takes care of the public needs by means of the juridical and financial tools and the companies are really independent and directly responsible.

Practice has shown that in the cases in which the State's intervention was substantial and aimed at developing the private sector, in the cases in which the legal and administrative framework has developed and the entrepreneurial ideas were supported, the government has become a real "engine" for the economic growth. Therefore, governments can intervene in economy in order to create a favorable framework which makes all social groups take part in the economic development and have benefits from this participation.

Despite the fact that the State has been accused of being a bad manager, insensitive to the social problems, an inefficient factor, a bad regulator of economy, playing the pat of the absolute and all-knowing master, it is a main actor on the economic scene, the main means by which "the rules of the game" are defined and, then, put into practice.

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