THE NEED FOR STATE IN THE ECONOMY-EPISTEMOLOGICAL APPROACH

ANCA-ŞTEFANIA SAVA *

ABSTRACT: *The aim of this paper is to discuss the need for state in the economy, in an epistemological viewpoint. It presents in a critical manner the ideas on the state of the mercantilism and physiocracy representatives, of the classical and Keynesian economists and of the so-called current „the new liberal orthodoxy". It is noticed that the need for a minimal state, as a condition of proper functioning of the society, has been justified even by those who have criticized it (classical liberals), being recognized that a society can not be conceived anarchic and utopian. If during '29-'33s, the philosophy of laisser-faire was replaced by the Keynesian doctrine, and '70s have placed the welfare state in a crisis of legitimacy, starting from 2008 we can talk of a resurgence of the Keynesian paradigm, according to which government intervention is seen as a way to stimulate the economic recovery.*

KEY WORDS: *Welfare-state; the minimal state; Keynesianism; macroeconomic policy; School of economic thought; classicism; monetarism*

JEL CLASSIFICATION: *I38, H10, E12, E61, B10, B12, B52, E61*

1. THE NEED FOR STATE INTERVENTION IN THE ECONOMY FROM THE MERCANTILISTS AND PHYSIOCRATS' PERSPECTIVE

Mercantilists were the first which made reference to the role of the state in the economy, paving the way for the assertion of physiocracy and classical liberalism doctrine. This particular school of thought specific for the sixteenth and seventeenth centuries has dominated the economic life in the theoretical and practical matter, until the mid-XVIII century. A first form, called the early mercantilism (XVI century and decades from the first half of the XVII century) campaigning for administrative measures imposed by the state to restrict and even ban the import of goods to stimulate exports, leading to an increase in company profits, in the stock of currency and precious metal.

---

* *Ph.D. Student, University of Iaşi, Romania, sava.anca@yahoo.com*

Industrialist mercantilism, founded in France by Jean Bodin, Montchretien and Colbert, provides that political power can not be linked only by commercial expansion, the main purpose being the acquisition of precious metals by practicing a policy of industrial development, based on state regulations and prohibitions. Thus, state subsidies have the task to develop manufacturing, together with rigorous application of protectionist policies.

Opening to the classic liberal economic doctrine was made by the English comercialist mercantilism, theorized primarily by Thomas Mun (1571-1641), Josias Child (1639-1690), William Petty (1623-1687). Thomas Mun recommended to the British state increasing the imports of goods since leaving money abroad can make a much greater wealth for England, governed in a stock of currency and higher precious metals.

In turn, physiocrats, followers of the general economic theory based on natural order, have been held fairly in terms of state intervention in the economy, believing that people are not yet ready for a democratic exercise of quality, so that the form of government is conducive to a strong monarchical state, as far as ensuring compliance with natural laws, but a state with some legislation.

State of natural order is logically prior to history and civil society, wants to be defended what is considered to be natural law. In short, the state functions are to: *maintain the natural order*, referring to property; *instruction*, so that people will be able to know the natural laws, to establish a social order for personal happiness and prosperity; *achievement of public works*, particularly infrastructure contributing to labor efficiency in agriculture (Popescu, 2009, p.159).

According to physiocratic school, the economy can lead to a harmonious order if there is no intervention in the economic cycle, if any regulation is waived, if people are left free, counting on the idea that each individual will seek to work towards completion of general interest. The wealth's surplus is only released from the branch of agriculture, is precisely why their philosophy is based on a single tax, on net agricultural product, which is divided into different proportions between class owners (sovereign, landowners, clergy, military, government).

2. THE NEED FOR STATE INTERVENTION IN THE ECONOMY FROM THE CLASSICAL SCHOOL PERSPECTIVE

Classical School precursor is considered to be Adam Smith (1723-1790), author of "The Wealth of Nations" (1776), whose economic theory has a psychological basis, namely self-interest. His liberal doctrine advocates for the known principle "laissez-faire, laissez passer, le monde va de lui même", founded by physiocrats on natural self-regulation of the economic system, necessary for production factors to move freely from one sector to another, and thus free play of individual activities, to achieve spontaneously the general interest of society.

However classical economists belonging to the utilitarian tradition recognize the need for state intervention where the market economy functions can not be made spontaneously and believe that there should be limits on state action concerning initiative and individual liberalism. Smith, but also followers of liberal doctrine, including David Ricardo, Jean Baptiste Say, Bastiat Francois think that the socio-economic system can not function only in the case of creating a public institutional apparatus. In other words, intervention is permissible, but with limitations on the field of public intervention on private initiative.

After reading the Adam Smith' book, "An Inquiry into the Nature and Causes of the Wealth of Nations", it is noted that he does not preclude state intervention in any way, but only if advocates actions "aimed at promoting the general welfare", if increases happiness and prosperity of the community, defending the company jurisdiction. Smith is against restrictions on imports and incentives for exports, against governmental regulation designed to protect local industry against competition and against government spending with unproductive purposes.

In his book, Adam Smith specified types of expenditure made by liberal state, namely: public defense costs, expenses for the administration of justice, public works spending and for public institutions and another type of expense intended to support the state rank.

Public defense expenditure was treated as a first duty of the state to protect members of society of violence and damage to other persons and societies and was more expensive as the society became more civilized. Adam Smith noted that in modern war, higher defense spending advantage wealthy and civilized nations compared to the poor and barbarous, which were favored in ancient times. He stresses the role of undisputed standing armies, well disciplined, the country's defense against barbarian invasions from the neighbors (Smith, 1965, p.159).

A second category of expenditure is the expenditure for the administration of justice, for protection against unjust of other society members. Such costs, as those for public defense, impose a general contribution of members, although Adam Smith criticized this, saying that "expenditures for the administration of justice could be done very fairly through specific contributions of one or another or both categories, as they require different occasions, as fees paid to courts" (Smith, 1965, p. 235).

A third state debt, as presented by Adam Smith, is focused on making expenditure for public works and public institutions, which bring more benefit to society, given that individuals can not report and maintain, because profits would not cover. Adam Smith noted that the expenditures incurred by the state were not absolutely necessary covered in what is called the public revenues, but on account of special revenues, as fees for vehicles passing over a road, bridge or waterway.

State was making expenses for education and for people of all ages, but such costs sought an instruction, especially religious invoice. These costs took the form of a sharecrop basis or land tax, a wage or a stipend granted to the representatives of this doctrine.

Also, Smith talks about a number of expenses necessary to bring the sovereign ability to perform its various duties, to support his rank. He asserts that higher costs are necessary for a monarch, compared with the head of state in a republic.

Regarding taxes, classics believe they should aim to cover public expenditure, not a barrier to trade.

Moreover, as stated in Onofrei (2000), liberals John Stuart Mill and Adolph Wagner bring major amendments in the doctrinal position of their predecessors. They advocate the desired state intervention, showing how the state should interfere in the economy, but not how it is the intervention in reality. They reached this view following the first adverse event of industrial liberalism, such as the unequal distribution of wealth and welfare in general, which in addition to psychological discomfort created, and costly economic system as a whole. Mill proposes to allow people the right to dispose of their goods, but limit the right to inherit. He believes in the possibility of social improvement through government intervention.

Also, Wagner introduced the term "*state - the distribution regulator*" following the policy of creating public financial resources and because of its direct participation in the production of material goods. The economist refuses to give credit to the liberal conception that considers state only as "producer and legal protector", supporting that the harmony of natural law is contrary to the facts and leads to crisis and misery of workers.

Of real interest is the concept promoted in the field of taxes, considering that the tax is economically justified only if after prelevation the society creates wealth.

Very suggestive is the opinion of professor Ion Pohoață, according to whom "[...] classics of economic science unanimously agreed that without the state (meaning government), society life turn into chaos and that its presence is necessary for anyone is willing to consider a possible life lived beyond anarchy and utopia" (Pohoață, 2001, p.104).

3. THE NEED FOR STATE INTERVENTION IN THE ECONOMY FROM THE KEYNESIANISM PERSPECTIVE

In the inability of capitalist economy to self-regulating through market mechanism of free competition, J.M. Keynes (1883-1946), a British economist whose ideas, called Keynesian economics, had a radical impact on both modern economic and political theory, as well as on many governments' fiscal policies, proposed the solution of government intervention to prevent and correct imbalances that had arisen. The economic crisis of overproduction in the years 1929-1933 contributed to the abandonment of liberalism thesis and establishment of the economic interventionism.

In the modern conception assigned to the state, it is no longer a mere consumer of resources for traditional tasks, but can be seen as an active partner for economic and social life.

The state must fill weaknesses in private sector investment, because "market alone is not able to show entrepreneurs what it is the right level of investment (the one corresponding to full use of labor)" (Guerrien, 1993, p.141).

Social democratic governments emphasizing the protection offered by state to social disadvantaged groups favor the intervention through public spending and thus achieve a higher redistribution between members of society. Now prevails the idea that the role devolving upon the welfare state contributes to a largely redistribution of the product created.

In his famous book, "The General Theory of Employment, Interest and Money", John Maynard Keynes states for state intervention in the economy (since they want an optimum balance), taking into account the stabilizing role of public spending and investment multiplier.

To stimulate investment, Keynes talks about the possibility of public action by the central bank, the level of money market interest rate, but also directly, through grants, purchases of goods and services by governments etc. Thus, in times of economic downturn, the central bank takes measures to reduce interest rates, which will support loans, will increase consumption, increase aggregate demand, employment of workers and thus will ensure the economic recovery.

Through fiscal-budgetary policy, according to Keynes, in periods of economic recession, the state must reduce the rate or waive certain taxes to increase consumer demand and investment and on public spending, will increase purchases of state of social and cultural investment, orders, counting on their multiplier effect in the economy. During the economic expansion it is exactly the reverse situation. The effects of these policies on the state budget are different, depending on the business cycle phase. During the recession, by cheap money policy, increase state spending and reduce revenues, ending with a budgetary deficit. On the long-term, such a budget has also negative effects on the economy and leads to lower global demand, with few sources to cover their costs. Conversely, during economic expansion, through a money expensive politics, state revenues increase and costs are reduced so that it will be a budgetary surplus.

In the General Theory, Keynes opposes to state socialism, to moving production tools in public ownership, stating that "a fairly comprehensive socialization of investment will prove the only way to ensure a high occupancy close to full employment" (Keynes, 1970, p.380). Keynes considers even that strengthening the economic role of the state, "is the best guarantee of personal freedom, meaning that it highly extends, compared with any other system, the field expressions of personal performance" (Keynes, 1970, p.381).

Keynesian thinking had a practical confirmation, as it is evident by the U.S. promotion of the New Deal, then in the postwar period, and by other countries through active involvement of state and promotion of government policies of regulating the economic processes and proportions, including the macroeconomic and social protection.

P.A. Samuelson reconsidered Keynesian and classical ideas, arguing that economic theory must combine with the free market mechanisms of state regulation in a single facility. Therefore, according to his opinion, the economy is not governed strictly by the ratio of market supply and demand, but also contains elements of public control.

Samuelson says: „As the country's main economic entity, the State, through its public expenditures, has an important role in determining patterns of consumption, investment and profits in the economy" (Samuelson, et al., 2000, p.368). In this regard, he calls for state action to develop programs that have impact on the market and on the mixed economy, and in their central place to put the one concerning public works in order to increase demand, but also to ensure the acquisition of best part of available labor.

Moreover, in the U.S. in the '80s and '90s, federal funds for highway road construction led to the rural and urban development and social protection system allowed an increase in revenues for the elderly, enabling them to move and set in different parts of the country, thus creating the so-called "havens of pensioners" in Florida and Arizona.

4. THE NEED FOR STATE INTERVENTION IN THE ECONOMY FROM THE PERSPECTIVE OF NEW LIBERAL ORTHODOXY

Monetarists, representatives of the supply-side doctrine, those of Public options School, of the Austrian School, state for the need of state in the economy, which remains the guarantor of collective identity. An opponent at state intervention remains the Libertarian School.

Outstanding representative of the monetarism, Milton Friedman admits the state presence in the economy, considered "essential so as to establish rules for the game and as arbitrator in interpreting and applying written rules" (Friedman, 1995, p. 29). The economist campaigns for what is called the minimum state, whereas its presence standardize: "by imposing uniform standards in education, the construction of roads, sanitation, central government is able to compete at improving performance in many areas even to raise development environment of all communities" (Friedman, 1995, p. 18). To prevent this, Friedman believes that the scope of government should be limited to maintenance law and order, implementation of private contracts, creating competitive markets and that government power should in turn be dispersed.

Also, A. Laffer, M. Feldstein, A. Gilder believes that in what concerns public spending for social protection, it must be limited to the possibility of expression of incitation to work, save and invest, to thus reinvigorate the economic and productive activity. They believe that social protection has the effect of reducing the cost of unpaid time, this is the way they condemn any policy to regulate demand and desire to demolish the welfare state to restore the dynamism necessary to the free initiative, the only one creating wealth. Meanwhile, the taxation level and contributions, income earnings and benefits levels allow welfare recipients to receive income without work.

Galbraith (1997) stresses the need for state intervention to advance society through appropriate measures to be implemented during periods of stagnation or negative growth for creating jobs. It also emphasizes the need for government support for education, which "has a rather political and social role even a greater intrinsic justification" (Galbraith, 1997, p. 66).

Also, public or collective choice school, with its particularly representative, James Buchanan, specific for the '50s, put in the center of the discussion the state, electoral systems, political parties, pressure groups, bureaucracy, etc., being concerned with the demonstration that increased public spending does not result from the demand "pressure" coming from private operators, but from the bidding behavior of government and public policy makers.

They advocate for reconsidering the political system, in particular the electoral system, which leads, according to the theory of "median voter" to a inadequacy of public spending relative to population needs. According to this school, not only that the state should limit its involvement in the economy, but he must learn to properly manage and, moreover, to balance the budget.

Buchanan (1997) speaks implying the concept of ideal state, civilized, protective, responsible for ensuring the satisfaction of the conceptual terms of the agreement, to ensure "protection of rights", that must be impartial, neutral arbitrator, outdoor, likened a robot running a program. Since reality has portrayed a different state, Buchanan suggests the existence of a productive government, which is formed by a group of people elected to govern.

According to the ideas of this school, the state is not regarded as absolute guarantee of interest, social justice, but as a human organization in which decisions are taken by people, politicians and officials, which may fail and may concern, firstly of their personal interests: politicians to be elected or reelected, while officials have the ambition to increase power and remuneration. It is an argument for this school representatives campaigning for a minimum state.

The Austrian School advocates acknowledge the presence of government in the economy, but a limited intervention. For example, liberal Ludwich von Mises (1998) criticized the famous dictum: "the government is especially good as it governs less", convinced that any criticism can be made regarding the effectiveness or not of some actions, but you can not say that you hate government presence.

The economist did not hesitate to be clear about the fact that people can not do without government, stating that "[...] this political power is the primary task of safeguarding the proper functioning of the economy against fraud and violence arising from inside or outside the country "(Mises, 1998, p. 51).

An opponent of state intervention in the economy is the libertarian school, one that relies on theories of the Austrian school and especially on Hayek ones, having as initiator the person of Murray Rothbard. Its representatives are convinced supporters of laisser-faire's and suspicious of a proper state intervention in the economy. According to this school of thought, human rights are not state product, therefore can not be seized or denied for the good of the community. They totally condemn the tax, which is considered a theft.

Libertarianism is based on the idea that the public sector is inefficient and wasteful than the private sector and the welfare state does not facilitate recovery application, whereas much of the revenues of firms and individuals are channeled to the public. The solution with which they come is self-regulation market. This is expressed by a reduction of taxation and public expenditure and that policy aims to encouragement the offer rather than encouraging the demand (Hoanță, 2000, p. 58).

Nozick (1997) rejects elements of the modern welfare state, fights for the existence of a minimal state, whose functions relate to theft protection and protection of property rights. Moreover, Nozick believes that taxation is inherent in distributive societies, and if it is necessary to sustain a minimum state it means forced labor.

Hayek distinguishes between residual and welfare state, the first one is designed to protect the market and individual liberty, while the second is a constraint which will lead to restriction of freedom and individualism, may promote totalitarianism. He therefore advocates for state intervention in order to protect market.

5. CONCLUSIONS AND PERSONAL OPINIONS

The debate on the need for state intervention in the economy has been subject of analysis and reflection over time, depending on the philosophical opinion of different schools of economic thought.

Physiocrats, followers of the natural order governing society, fight for an authoritarian state, but reduced to minimum, a state that ensures the legal framework under which the freedom, life and property should be considered and treated as intangible values. However, the government should not restrict any right of life or the right to liberty, property or other right or natural liberty.

English Classical School was intended to correct errors of physiocrats and mercantilists and to give some relevant explanations of economic processes and phenomena. Classical economists were strongly for the existence and presence of state as a condition of proper functioning, because society can not be conceived anarchic and utopian, that liberalism and individual initiative can not be left to chance, being necessary limits of state action: Smith and Ricardo state for a tolerated state intervention, while Mill, Wagner for a desired action.

According to classical utilitarians, the state is absolutely necessary in the light of faith that state regulation enhances happiness and prosperity of the community and doesn't takes action if the global utility is gained more efficiently on a private way. Therefore, need for a minimal state in the economy has been justified by classical liberals, being aware of certain adverse effects expected.

The social and economic philosophy of laisser-faire, that all citizens share a single political ideal, namely the welfare of the whole nation was replaced during the economic crisis of overproduction in the years 1929-1933 by the interventionist doctrine (1933: U.S. New Deal Policy, 1936: Keynes's interventionist theory in Europe).

State interventionism suppose that governments should interfere in the economy through public spending, taxes and interest rates to mitigate the negative effects of economic and financial crisis, thus increasing the role of economic policy measures, including financial policy. Therefore, Keynes attaches great importance to state that in his opinion, is beyond the social classes and whose intervention in economic life are in the interest of society. Thus, the economic model he developed requires considerable financial efforts by public authorities and aims to achieve economic equilibrium, not only solve the problem arising from the distribution process, as in the classical vision.

A quarter century after the Second World War, Western developed economies have experienced sustained economic growth, using full employment and inflation in the normal range.'70s have raised the debate on welfare state, placing it in a crisis of legitimacy, defined by the liberal movement branches: School public choices, libertarian School, New economy, etc., which reduces the powers of the state, showing its perverse effects of intervention, wanting to reduce it to a minimum.

Personally, I think that a minimal state, a state such as the one proposed by Nozick, without taxes, it is not likely to be. Even those who have criticized the state have recognized the need for government intervention (Hayek, Mises).

The typical expression of specific arguments for a liberal state of the late twentieth century is the one of Milton Friedman, who supports the idea of a state with limited scope, covering defense policy and law, implementation of private contracts, creating competitive markets as well as more dispersed governmental power.

Currently, what characterizes the global economic landscape, dominated by a strong economic and financial crisis, is the unable of market to be self-regulating and also a resurgence of Keynesian paradigm, according to which government intervention is seen as a way to stimulate consumption, aggregate demand and thus the country's economic recovery.

It was noted that governments with a share in the global economy have practiced such policies, attempting through fiscal budgetary stimuli to avoid an economic decline and seeking to support the private sector. According to Keynes, in times of economic downturn it is advisable to hire more public spending, given the multiplier effect that the demand for final consumption and investment implies.

Nobel laureate for Economics, Paul Krugman, in his book „Întoarcerea economiei declinului şi criza din 2008" (2009), said in a suggestive manner that we live „not only a new era of economic decline, but that John Maynard Keynes - the economist who logical loose harnesses the Great Depression - is now more relevant than ever" and that „the only major obstacle to global prosperity are outdated doctrines that human minds can not divest oneself".

I believe that the interventionist role of the state is important in the context we are talking about as long as the economic and social measures it implements can lead to recovery of the country, if small businesses are supported by state aid schemes and tax incentives, given their potential of creating new jobs, if through public expenditure are helped economic categories hardly-hitten by the crisis etc.

6. ACKNOWLEDGEMENTS

I am grateful to "Alexandru Ioan Cuza" University of Iasi, for financial support of this article, due to the project POSDRU/88/1.5/S/47646, cofinanced from the European Social Fund, within the Sectoral Operational Program Human Resources Development 2007-2013, the project implementation period being 36 months, from March 1, 2010, until February 28, 2013.

REFERENCES:

[1]. **Buchanan, J.** (1997) *Limitele libertăţii. Între anarhie şi Leviathan*, Editura Institutului European, Iaşi

[2]. **Friedman, M.** (1995) *Capitalism şi libertate*, Editura Enciclopedică, Bucureşti

[3]. **Galbraith, J.K.** (1997) *Societatea perfectă*, Editura Eurosong&Book, Bucureşti

[4]. **Guerrien, B.** (1993) *Economia neoclasică*, Editura Humanitas, Bucureşti

[5]. **Hoanţă, N.** (2000) *Economie şi finanţe publice*, Editura Polirom, Bucureşti

[6]. **Keynes, J.M.** (1970) *Teoria generală a folosirii mâinii, a dobânzii şi a banilor*, Editura Ştiinţifică, Bucureşti

[7]. **Krugman, P.** (2009) *Întoarcerea economiei declinului şi criza din 2008*, Editura Publica, Bucureşti

[8]. **Mises, L.V.** (1998) *Capitalismul şi duşmanii săi*, Editura Nemira, Bucureşti
[9]. **Nozick, R.** (1997) *Anarhie, stat şi utopie*, Editura Humanitas, Bucureşti
[10]. **Onofrei, M.** (2000) *Impactul politicilor financiare asupra societății*, Editura Economică, Bucureşti
[11]. **Pohoață, I.** (2001) *Capitalismul: itinerare economice*, Editura Polirom, Iaşi
[12]. **Pohoață, I.** (1996) *Doctrine economice*, vol.2, Editura Fundației Academiei „Gh. Zane”, Iaşi
[13]. **Popescu, G.** (2009) *Evoluția gândirii economice*, Editura C.H. Beck, Bucureşti
[14]. **Samuleson, P. et al.** (2000) *Economie politică*, Editura Teora, Bucureşti
[15]. **Smith, A.** (1965) *Avuția națiunilor: Cercetare asupra naturii şi cauzelor ei*, vol. II, Editura Academiei Republicii Populare Române, Bucureşti