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State and market in a context of economic globalization

Pax Economica

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Summary : Economists and politicians often oppose the market and state action. The question that is asked is who predominates in these economic relationships. Today, the market seems to be preferred by most nations, but the state still plays an essential and irreplaceable role in the economy of a country. The doses of its interventions are different depending on the country, with Russian, Chinese, French, American, European or democratic models. It is necessary to fulfill its sovereign power, to reduce the weight of trusts and organize competition, to protect the Nation from all existing threats, such as war or economic dumping, environmental and climatic causes, the reduction of inequalities and the fight against the precariousness of citizens.

Les économistes et les hommes politiques opposent d-souvent le marché et l'action de l'Etat. La question qui est posée est de savoir qui prédomine dans ces relations économiques. Aujourd'hui, le marché semble être préféré par la plupart des Nations, mais l'Etat exerce encore un rôle essentiel et irremplaçable dans l'économie d'un pays. Les doses de ses interventions sont différentes selon les pays, avec les modèles russes, chinois, français, américain, européen ou démocratique. Il est nécessaire pour accomplir son pouvoir régalien, pour réduire le poids des trusts et organiser la concurrence, pour protéger la Nation contre toutes les menaces existantes, comme la guerre ou le dumping économique, les causes environnementales et climatiques, la réduction des inégalités et la lutte contre la précarité des citoyens.

Mots clés Rôle économique de l'Etat, marché, modèles du capitalisme, globalisation économique

Economic role of States, market, models of capitalism, economic globalization.

State and market in a context of economic globalization

The economic relations between the market and the State have been much debated in the economic thought. The first economic analysis, the mercantilist current considered the Prince's power as the single aim of the economy. The State was considered as the main originator of economic activities. With the English Classical School (Adam Smith and David Ricardo...), the market has been considered as the main basis of the capitalist economic system, the instrument of the natural order or of the "invisible hand".

The market economy become established from the 19th century, the State being limited to a policeman's role. If World War I and the economic crisis of the 1930's have increased State economic action (Keynesian revolution), the Thirty Glorious have ended with the development of more liberal slogans, as "less State" for a « better State », or « modern State, modest State ». The theories of Public Choice have contributed to condemn the State action, showing the game of individual interests behind the idea of collective interest. This is one of the greatest problems of our time, which has lost its humanist values to the benefit of the market religion.

Several models of relations between State and market exist (or have existed):

- **The Soviet model** seems to have had its day, at least in the shape it has had for 70 years. The rigid and authoritarian economic planning is claimed by no significant society. The market economy has prevailed upon its systematic opponent.

- **The Anglo-saxon capitalism** supposes a reduced State socioeconomic role. The consumer is supposed to be the new king, the solvent agent and solidarity is no more a virtue of the system. The American capitalism is dominated by the demand for profitability, the importance of the contract, the power of the judge and the

influence of the financiers. The role of the State is subsidiary in the economic order.

- **The social democrat** model implies an active policy in favour of full employment, a centralized collective bargaining favorable to a relative wage equality and public services . On the other hand, very high taxes have represented a factor of crisis, by reducing the innovation's propensity.

- **The German model** (inherited from Bismark, who believed in the State's responsibility for the national welfare) is characterised by a State's commitment in favour of social welfare, the aims of security and stability prevailing over the one of equality. The Rhenish capitalism is based on the concern of long-term action and on the importance of collective agreements through joint management.

- **France has proposed the implementation of a joint or incentive economy**, by means of a flexible economic planning. A policy of strategic productive and technological choices has often been preferred.

- **Today, the Chinese capitalism** supposes the search for fast profits, with a strong support of a State dominated by communist structures and the influence of "godfathers". It is a paradoxical system, maybe doubtless in the long term, because of an important contradiction between the modern economic bases and the political values.

The interventionist theses are widely disputed notably by the supply-side economists, according to whom « too much tax kills the tax », increasing tax rates being an obstacle to growth, and thus depriving the State of fiscal receipts. Besides, a high public debt is a factor of inflation or of growth's blocking. According to its opponents, the State intervention creates perverse effects, notably inflation, a loss of competitiveness and a reduced productive efficiency.

Today, the economic globalization prevents Keynesian reflation policies that are not concerted. The international financial constraint

restricts the budgetary policy, the rooms for manoeuvre of which are already very reduced, because of the inertia effects. The action of the Central Bank is restricted by interest differentials, deregulation and decompartmentalization. Though it may act on the short-term interest rates of the monetary market, the liberalization leaves the ultimate power to the financial markets. Everyday 1500 billion dollars are exchanges on international exchange markets, what represents about the French GNP. Speculation takes an excessive place in the global economic regulation, sometimes leading to financial crisis with strong economic and social consequences (Mexico, Brazil, Thailand, Russia or Argentina).

No supranational authorities exist which should make respect a discipline on the multinational markets. The development of free trade areas allows companies to partially avoid *régulationniste* State controls and they benefit from capital mobility.

Nowadays, States always exercise a not unimportant action,
in:

- The transformation of national markets in international ones, notably European ones;
- The coordination of the national economic policies within integrated markets;
- The defence of the national competitiveness in a context of high foreign direct investments. The main policy concerns the "effects of attraction". With this competition, the "*beggar-thy-neighbour*" policies may even lead to protectionism,

The international economic organizations are necessary in the globalization, notably in the fields of human rights, democracy, sustainable development or social welfare. It is however necessary to limit the power of their bureaucracy. The preservation of social gains in industrialized countries must also be deserted because of South workers' competition. The history of capitalism is no more defined inside national borders. The implementation of a market economy is presented as a factor of democracy and, as States have lost some economic power, the electorate is subject of a democratic illusion. Many questions do not find appropriate political answers, like the

cultural exception, the OGM, the representativity of political institutions. The international coordination is a long learning, which cannot work effectively without political will.

The system suffers from a lack of democratic regulation. Capitalism is legitimated by the State intervention on civil and commercial laws on market exchanges and contracts, on the collective representation and on social rights to reinforce solidarities. On these conditions, capitalism is bearable. But citizens come up against too much technocratic or bureaucratic rules. Moreover, as there is no supranational sovereignty controlling the international economy integrated into divided sovereignties, the weight of the political sphere decreases with regard to that of the economic.

II. The State, guarantor for the general interest or of some particular interests

States have not disappeared from the international scene, they have even increased from 50 to 225 from 1949 till 2002. The current dominant conception is the one of a minimal State. And yet the capitalism success is as much that of the authorities as that of the market, the State control being as important as that of the market; but the State may also sometimes be synonymous with bureaucracy, wasting, corruption or negligence.

For Douglas North, a competent public administration and a good government are sources of competitive advantages for Nations. The lack of State legitimacy in South and Eastern countries undoubtedly represents a weakness, which favors the implementation of mafias, militias and arbitrary powers. In Russia, the building of a new State is much more difficult than the implementation of the market economy. Freedom and the private property are the fruits of effective governments.

If the democracy is a necessity, it is not always perfect. The utilitarian economists have developed the idea of a trade of votes. The question is to know if the democracy is a condition of the development. Besides, the economic liberalism has not always favored

human rights and corruption and organized crime may prosper on free markets, notably thanks to the progress of information technologies.

State expenditures are sometimes too important. What is now concerned in the budgetary policy is not its global amount, but its structure. The State indubitably exercises a determining influence on incomes distribution through the tax system and the public spending (as a factor of replacement of private consumption or investment). The political and social choice is thus indeed always present.

For James Tobin, there is moreover no correlation between the rates of fiscal pressure and countries' economic performances. He explains that United States undergo a deterioration of infrastructures, of public utilities and social tensions in cities, because of the hostility to the public sector. 37 million persons (that is 15 % of the population) have no public or private coverage. The privatization of some public services, notably the social welfare, does not reduce the cost of the service, but it increases social disparities and exclusion.

The State is sometimes considered as ineffective and technocratic. For Milton Friedman, State policies generate effects that are opposite to those looked for. Concerning education, the public education being bad in the poorest zones, only privatization and parental choice may be an effective solution. Moreover, the existence of a minimum salary uncreases unemployment, notably that of young people. Besides, the policy of infrastructure or of public housing contributes to the depreciation of some aeras. Finally, the welfare policy leads to poverty. According to Friedman, the State is often the servant of the deficient private interests. The State technocracy has some technical merits, of knowledge and of know-how, though it often reuses the democratic debate and develops a strategy of secret.

The State is sometimes undermined by the privatized power and the corruption, which compromise its role. The economic policy depends too often on the electoral calendar. Besides, global firms look for markets opening, to benefit from an increasing demand and from scale economies. Within the framework of the globalization, the multinational corporations privatize and often

internationalize the role of the State. Moreover, globalization favors the corruption and all kinds of traffics, because of a lack of control. Indian customs consider that the illegal passage of gold, silver and of durable consumer goods exceeds 20 % of the GDP.

The understanding of the functioning of the organized crime which structures some societies is insufficient to analyse its effects on the State and on markets. In numerous countries, Mafias groupings exercise an influence on the political power, they are powerful instruments of social control and they go into some markets, through criminal means. The organized crime intervenes through traditional canals of distribution, beginning in activities that do not question the dominant interest of the society.

The State is also deprived of its social values and of solidarities. The excessive individualism may only lead to individual conflicts, with a rise of injustice and of drug consumption, with a loss of the social values and of solidarities. Territorial disparities increase, cities wanting no more redistribution, like New Delhi that does not want to pay any more for India. The relocations are not made in favour of poor countries and we attend a real " métropolisation " of the world economy.

The State is instrument of power. Throughout the American history, the commercial interests have always exercised a central role on foreign policy, and vice versa. However, at least officially, the objectives of the Nation have never been only commercial, the American state has not promoted the Mercantilist discourse (in spite of Hamilton), but rather the ideas of free markets, of political freedom, of peace and democracy. These objectives remain actual, though not any more in the economic field. Washington's policy has voluntarily insisted on the opening of foreign markets, while being reluctant to opening its own market. History shows that the foreign policy often came in support of private interests (United Fruit in Latin America). So, the Big Three firms in the automobile industry have driven the Clinton administration to lead a commercial war with Japan.

Today, the controllers of capital bypass the political authorities without any ethical consideration. They do not meet other obstacles than those raised by their counterparts. They control international networks and lead their policies with the IMF, the World Bank or the OECD. State depend on them and not they of it.

Finally, **the State is competed** and globalization may be a weapon against public action. The "Region-States" of Kenichi Ohmae competes with Nation-States, which are not any more adapted to the requirements of a global capitalism, not even in their traditional functions of police, justice and defence. The question is to know, wether the Nation state is not too small for big problems and too big for the small problems. The economic integration risks to make the social regulation regress, with a loss of efficiency of the economic policy and the emergence of destabilizing effects for the social integration.

Today, the State abandons the monetary policy to the central bankers. These ones exercise a sovereign authority, refused to the elected politicians, as if the monetary questions recovered from a particular competence, probably stemming from an almost divine right. Monetary authorities are all the more considered competent as they exercise a blunt or orthodox monetarism. Financial markets exercise a real dictatorship that no country can escape, in a world context of indebtness and of dollarisation.

Too much market may kill the market. The globalization makes weigh important risks for which the State is not responsible but which it will have to deal with: the volatility of financial markets, the too strong concentration of economic powers and the development of the exclusion. The market cannot work without a strong State.

III. The necessary actions

The role of the State is indisputable in several domains which maintain at least the national unity and the collective interests, namely the consideration of market regulation, collective goods, uncertainty, transfers and externalités.

The market regulation is necessary. Paul Krugman underlines the necessity for the market to be regulated to work with efficiency. The liberalism needs rules to function. Like this, the Russian government has first believed that a program of privatization and liberalization was sufficient to create a successful market economy. Now, institutions play a fundamental role, in the same way as the legal rules. Markets do not look like the Neoclassical representations; for example, the health sector has no free entry, with the obligation of the inoculations or the diploma required for the nursing staffs.

The market economy is however contradictory. The competition is never pure and total, it is based on power inequalities on markets. Now, the strongest may be tempted to eliminate the weakest and then to become a monopoly, what is the antithesis of competition. The antitrust legislation has been established to restore competition and market free functioning (law Sherman, 34, law Clayton in 1914), but it does not prevent the development of conglomerates, which represent the base of the American economic power.

Externalities have to be taken into account. They correspond to returned services or to not paid damages. The State has to act to regulate this positive and negative externalities, to reduce the disastrous effects for the environment of an industrial pollution, but also to favor the regional development by promoting coordinated investments. The State must thus intervene for « internalizing the externalities ». It is necessary to promote a sustainable development by establishing priorities between the short productive and consumer term and the long term of investments and ecology, with the consideration between present and future. With the rise of irreversibilities (biovariety), it is necessary to define a principle of caution, that only the collectivity may promote. « Negative externalities» must be controlled and regulated by the State.

The public goods are essential in the economic development. The collective services generally represent a non rival consumption, the exclusion from which is difficult, even impossible. In the liberal thought, the pure public goods have two fundamental characteristics:

the "non exclusion" and the "non rivalry". Some services cannot be excluded from their use by economic agents who did not finance them. It is the case in numerous activities as justice or national defence. Besides, the consumption of one good does not impede the consumption of the same good by other persons. These goods must be financed through the tax system, because the application of market rules favors "free rider" behaviours, harmful to all the individuals and to community. The State supplies an important level of public, educational infrastructures and training, it guarantees the political stability and the protection of property rights. The cutting of governmental credits leads to the suppression of corresponding services. Historically, the growth of private productivity and the development of public infrastructure are strictly correlated, but the economic studies do not supply indisputable results showing the positive action of the second on the first one. Big returns on investment exist in certain countries (like Germany and United States), unlike in some other countries (like United Kingdom).

The collective action takes uncertainty and long term actions. The capitalism is effective in its capacity to satisfy the individual short-term needs. But it is nearsighted, with a very short-run horizon. So, the population's ageing threatens social welfare, public finances and collective investments. It provokes a modification of the centre of gravity of the preferences of time. However, without public or private pensions, it is necessary to save. The public investment comes to the rescue of the private investment. Today, with the scarcity of firewood, the desertification, the degradation of lands, half of the surface of the USA is constituted by ecosystems in danger. Unequalities are destructive of the environment. In the Sahelian case, there is a vicious circle of demography and climate. Only a long-term collective action, remote from market concernst may define an action frame liable to break the vicious circle of the impoverishment.

The transfers of incomes exist between social categories, generations and regions. So, the tax increases touches the rich, with the reduction of "*entitlements*" is exerted on poor men. The transfers of resources are not always well controlled (problem of the incidence)

and it happens that the poorest subsidize the richest, notably for the investments in education or in protection of the private property. For Lester Thurow, the American life standard requires, on the duration of a life, for 700 tons of minerals, for 4000 barrels of petroleum, for 25 tons of foodstuffs and for 28 tons of animal products. It is necessary to engage 250 000 dollars of investment for the education, the infrastructures and the equipments until one American fellow is rather old to work. It is certain that the populations of poor men will not be able, in a near future, to obtain a level of comparable consumption. The persistence of famine is only a problem of distribution of the available resources. The agricultural surpluses threaten the world and the world nutritional situation improves, but the malnutrition which hits Asia and Africa is invalidating. The transfers of resources are often a factor of social peace and of preservation of acquired advantages.

Finally, **the competitive aid is a temporary support** of the State for some firms, to go through an economic crisis. The public authorities elaborate a real social engineering to supervise industrial restructurations and favor job creations. Now, while asking for a reduction of its weight and of its economic role, companies always turn to the State in case of difficulty. After the terrorist attacks of September 11th, 2001, it is the State which has relaunched the depressed economic activity. In the United States, the programs of public support to the R*D and the military commands play an important role, even essential, in the development of activities of high technology; it is about a real industrial policy, which has been able to fertilize a competitive sector. We can however wonder about the question to know if the State was not brought to intervene every time there was an economic crisis and if it is not then excessive to attribute it the bad results which are the reasons of its economic action.

Finally the State defends a **certain conception of the independence and the security**. The free trade always favors those who fix the game rules. The strongest can impose rules. This tendency had already been underlined by List in 1840. To seize the opportunities inherent to globalization, it is necessary at the same

moment to be powerful and “to play the game”. In this way, it is necessary to favour trade development, to attract foreign capital and to control migrations.

Even when the state is challenged in its action at the ideological level, the necessities of economic policy remain evident in the fields of health, education, the environment, the effects of domination, representation in organizations international economic policies or for the protection of citizens and national employment. The market cannot function without government intervention to remove treasure and cartels. The market economy is attentive to the proper functioning of the company in the short and medium runs, the State must avoid the excesses of a market economy by nature greedy, restore the confidence of citizens and revive the economic activity when it is in crisis.

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