

ECONOMIC INTERVENTIONISM: A THEORETICAL ANALYSIS AFTER CRISIS

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Abstract

The financial and economic crisis as well as the interventionist efforts of respective governments to stabilize their economies, have generated a lot of controversy about the virtues of the free-market system and the wisdom of state intervention. As reality has shown, without an appropriate economic policy and regulatory framework, a nation's financial system becomes vulnerable to crisis and jeopardizes the stability of the entire economy.

In this paper we analyze the main trends of economic thought which preceded the global crisis, focusing on those that have been directed towards increasing state intervention in democratic nations: Keynesianism, corporatism, ordoliberalism and neocorporatism. Extreme interventionism will not be a topic of the paper.

In the present work, we reach the conclusion that global crises have drawn attention to the great economists of the time and many of them were the spearhead for new directions of state intervention in the economy. The solutions proposed by these economists are nowadays used to rescue economies from the economic crisis.

Keywords: *interventionism, economic policies, crisis*

JEF Classification: *E12, H12, P16*

1. Introduction

For classical economists, it was impossible to study Economics without Politics and Politics without Economics. Adam Smith or David Ricardo never used the "economy" term but the phrase "political economy". The using of the term "Economy" in a separately mode has begun in the 19th century. Smith understood that an efficient market can appear as a result of individual choices, but these actions were framed by the political system from that country, just as political system was shaped by economics realities.

The actual economic crisis can be better understood from a point of view of a crisis of political economy. We need to understand that in the time that the global economic crisis has different characteristics on the continents where they occurred, there was one overriding theme: the relationship between political order and economic reality.

The interventionism was defined as an ideology once the capitalistic society has been confronted with unknown phenomena, such as economic crises. The interventionism is defined as that type of the social cooperation where the government intervenes through regulations and orders in the progress of the market (in pricing, interest, wages and profits). In these cases, the state is not only a guarantor of the public safety, but an economic agent who sets the rules of the play and watch them.

Although, the specialty literature associates the debut of the interventionism with the global crisis of the '30, the first signs of the increasing involvement of the state are found even during WWI. In that period, was boosted the manifestation area of public finances due to rising expenses appeared in war. So, the state's role was expanded by increasing the involvement of the state budget to support military expenditures (increase of taxes, borrowing or money issue). This war effect related, after the event, to economic reconstruction effect, all with an impact on that head of budget state dimension.

The great economic crisis need quickly reactions from the political class. These crises determine a state of uncertainty, panic among the population (entrepreneurs, retired or employees). These reactions have been inspired by the economic doctrines occurring simultaneously with global crises, supporting, in most cases, a state intervention in the economy.

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2. The Economic Crisis of 1929 and government intervention

The crisis of '30s has shown that leaving the economy to regulate itself through its own mechanisms not always lead to desirable effects, but instead generates unemployment, instability on the stock market and banking.

Until the crisis, the most influent economic doctrine was the liberal one, who believes that exists two spheres separately: the public sphere (the state and its institutions) and the private sphere (the costumer, civil society and its institutions). When the two spheres interfere, their intersection should only cover a limited and easy recognizable zone (national defense, diplomacy, public order and justice). The state had only the obligation to defend the individual and his own sphere and is not allowed to influence in any way free initiative, whatever this is, so long as it does not conflict with the freedom of another individual.

In this direction, Adam Smith in his book "The Wealth of Nations" promoted the principle "laissez-faire" (Smith, 1998). In his opinion, as long as free markets work and promote competition, the individual actions, private, motivated by selfish interests contribute together to welfare's society. Smith accepts a minimum implication from the state in establishing some fundamental rules that allow the unhampered action of companies, just in case it not exist a private interest for the production of some goods: infrastructure, education, interest rate, Post Office management, primar instruction, exam organization in any liberal occupation or for any trusted place. The motivation acceptance in state involvement, although violates the natural freedom of individuals, is consisting in choosing the lesser evil of two evils. The state will intervene only when the natural freedom manifestation of one individual or a group of individuals risk to put in danger the safety of the entire society (predicting Smith a possible economic crisis?), only when the monopol granted to a company puts in danger the free competition.

However, as a result of the economic crisis that was triggered in 1929, works on state interventionism in the economy began to gain ground, pleading for the active role of state in economic life in correcting cyclical developments, in crisis prevention or in negative effects limitation. In history, an extreme form of state interventionism was the totalitarian one. Strong socialist or interventionist state, found mostly in the former socialist countries of Europe, undertook economic and social functions extremely comprehensive, directing all activity under the abolition of private property. In this context, processes and economic relations have become predominant public financial relationships. Interventionist ideology has a totalitar character here, financial resources being exclusively available to state and being allocated by decisions of public character.

2.1. Keynesian doctrine

John Maynard Keynes recognised that free markets have no self-balancing mechanisms that lead to full employment (Keynes, 2009). In this sens, he supported government intervention through public policies that aim to achieve full employment and price stability. In this sens, dirigisme theory supposed to prevent the possibility of negative economic effects like inflation, economic crisis, unemployment through state intervention in economic life.

Keynesian doctrine proposes preventing financial crises and unemployment by adjusting demand via credit and currency control by the government. The state has a major role by intervening actively in the economic measures, aimed at counteracting the crisis and their implications (unemployment, decreasing consumption, inflation, etc.).

In 1929, the economy stumbled due to excess production in many industries,

creating oversupply. This overproduction led to oversupply in many areas of the market such as farm crops, steel and iron. Companies were forced to dump their products at a loss, and share prices began to falter. Due to the number of shares bought on margin by the general public and the lack of cash on the sidelines, entire portfolios were liquidated and the stock market spiralled downwards.

Keynes points the fact that the crisis is due to insufficient demand, when total expenditure not keep pace with the increase in total income. Thereby, it is possible that population hoard a larger share of income, leaving an amount of money that does not come back into the economic form of investment spending. In this case, the state should intervene in the credit market and increased public spending to address the malfunctioning economic circuit. The destination of public spending is less important, the final aim being compensation of the total amounts saved by private operators.

Actually, the keynesiastic alternative to an economic crisis presumes an increase in aggregate demand by increasing net spending, so budget deficits offers, apparently, the only way for a country to emerge from economic stagnation. This theory believes that the issuance of money to finance that deficit did not involve any net cost; there is no danger of inflation.

However, the public stimulation for spending could lead to inflation, which it means that in the economic cycle are a lot of money and the state should interfere in the opposite direction, reducing the public spending and eliminating the excess of money supply. In this way, the state should pursue an anti-cyclical policy, appealing to the money issue and deficit when the economy is in crisis (insufficient demand) and having surplus and decreasing the money issue when demand and prices rise too high. The guard state is replaced in this context with welfare state.

The period following the Second World War is extremely favorable to social policies which underlies "welfare state" and constitutes the beginning of "The Gold Age" of capitalism, policies that have expanded in Western Europe and North America, but also in Japan, until 1973, the starting year of a new economic crisis.

One of the first authors who used the term "welfare state" was the Temple. In the book "Citizen and Clerical" (1941), he is considering that the state is a welfare one if "it fulfills moral and spiritual functions in promoting human welfare". But the term "welfare state" was consecrated in special literature with the publication of Beveridge report in 1942.

A definition of "welfare state" is given by Harold Wilensky who affirms: "The essence of welfare state is government protected minimum standards of income, nutrition, health, housing and education assured to every citizen as political right, not as charity" (Wilensky, 1975). He considered that the minimum of living standards can not be threatened unless the loss of income, so only to those without a job.

The roots of state involvement in providing social welfare of individuals are in pre-Christian civilizations. In Antique Greek and Imperial Rome came out the first forms of state social aid as pensions and scholarships. Welfare states becomes an important factor in the twentieth century, because the social security becoming a state system.

2.2. Corporatism

It is a current of the economic and social-political idea which has enjoyed widespread in three to five decades of the twentieth century. Corporatist state represented a middle way between the minimal state – liberal and communist dictatorial regime system. The elements of corporatism have been promoted by the Catholic Church, which saw the two alternatives as threats.

Theoreticians of corporatism appreciated, under social solidarism and under some socialist and anarchist currents, that ownership structure and income distribution in a market economy generates, on a way, a considerable economic efficiency, and on the other

way, permanent social fluster. As a solution to remedy these situations, they were advancing idea of structuring the entire society in professional organizations, called corporations, were to be included all those who were active in a particular sector, regardless of their position - employers and employees - which reminded about the organization of medieval guilds. Corporations were independent of the state institutions. Some corporatist projects foresaw corporatist representation in a national assembly, which would in time replace the traditional parliamentary organization.

In domestic economic policy, the corporatism recommended maintaining market economy, but severely limiting the freedom of economic initiative. The major characteristic of corporatism is represented by state intervention in economy and arbitrary allocation of resources. Market balance, the one which transmits information to producers and consumers, especially from prices, is damaged and the political decision will favor in a necessarily mode, one party over the other.

The fundamental principle of corporatism is simple: it is about subordinating private interests to the general interest, that is national interest, and therefore overlapping social class community. In consequence, there can be no strikes, demonstrations and conflicts between classes, these should collaborate between them. The arbitrator state, regulator state, organizes social classes.

In the interwar period, corporatist ideas are trapped into the ideology arsenal of fascism, becoming, with some differences of nuance, the official social-economic doctrine in Italy, Portugal, Germany, Spain, Brazil and other countries with fascist regime. The practical application in these conditions of corporatist ideas would lead to distortion, and over time, to self compromising. After World War II, the corporatist ideas continued to inspire social-economical policies in Portugal, and in a small way, in Spain and some Latin American states.

In Romania, we have an exponent for this current: Mihail Manoilescu, economic and political thinker, who has occupied in 1940 the function of minister of foreigner affairs. Manoilescu elaborated a specific corporatist doctrine, who founded under the social-economic and political aspect in "The Century of corporatism", "The Doctrine of corporatism integrally and pure" (1938) and "The Unique Party" (1937), as well as in studies "The Idea of a National Economic Plan" (1938), "The Southeast Europe in The Great European Space" (1942) and others. The global instability of economy, accentuated in the time of economic crisis of 1929-1933, as the large disparities on economic development between the countries of the world, has made necessary, in opinion of Manoilescu, the adoption of new internal and global economic orders. He recommended:

- the state reform, by adopting the principles of corporatism. As a result of recorded failures by economic structures already applied (free market economy, centrally planned economy), the humanity should adopt the economic and social-politic corporatist system;
- establishment of organized national economy, implies permanent state intervention in economic life, both for determining economic units and branches to be subsidized and to exercise control over foreign trade operations;
- increasing the buying capacity of industrialization countries, the industrial decentralization of world, and after, mitigating economic disparities between states.

In Romania, the economic ideas of Manoilescu were rejected by the major thoughtful currents, as the political forces in his lifetime not implemented them. Later, some concepts elaborated by Manoilescu would be used in the organization and management of centralized economy in our country and unpublished fragments of his works were included (without indicating the source) in the political-propagandistic writings.

His ideas about the economy were very popular and have been applied in Latin America, and as below, his working were compulsive benchmarks in industrial Brazilian

circles in the 20s. Manoilescu's work was important in the Iberian area and in Brazil as its economic doctrine offered arguments for industrialists to resort to protectionism as a way of economic development in these zones. It is considered that his ideas were at the foundation of the organization of Economic Commission for Latin America (ECLA).

3. The Economic Crisis from 1973 and alternative currents to neoliberalism

In the '70s, the liberalism started an offensive against real socialism. Thus, leaning on the paradox of history, liberalism saw in socialism of "communism" countries nothing but a progressive phase of the road humanity, and in the "socialism" of "Welfare State", implemented by Western social democracies, it refused to discern a form of mediation or a shift towards socialism fulfilled.

Under neoliberalism can be identified two main orientations: one predominantly conservative and a social-liberal one (the major current of this - ordoliberalism).

3.1. Ordoliberalism

Supporters of a wider social openings of neoliberalism have proposed correction or, where applicable, waiver of those classical and neoclassical liberal approaches that have proven historically outdated. The major current of this neoliberal orientation is the ordoliberalism, developed in "Freiburg School" before the World War II. Its nucleus has initially included Walter Eucken (economist), Hans Großmann-Doerth (specialist in commercial law) and Franz Böhm (specialist in civil and commercial law) and subsequently another backers, the most important one is Ludwig Erhard (finance minister and chancellor). The name of "ordoliberalism" is linked to the publication initiated in 1948: academic journal "Ordo"- the major pathway of this pure and political orientation.

In this doctrine, the state should be strong, without becoming totalitarian and intervening directly in the economic process. The strong state means using some limited resources capable of ensuring economic order. The state "it is not the instrument of private interests but the guarantor of order and competition". Also, the state must ensure individual freedom through economic order. And the goal of "order" is to "guarantee the inalienable right to liberty of the people" (Eucken, 1950, p. 314).

The social market economy ("Soziale Marktwirtschaft") is the reflection of ordoliberal thinking which has been transformed into economic system, meaning the "economic order". "The social market economy" expression appears in a paper written in 1946 by Alfred Müller-Armack, entitled "Planned Economy and Market Economy" ("Wirtschaftslenkung und Marktwirtschaft). The author was inspired by the concept of "social capitalism" belonging to Werner Sombart. But the phrase "social market economy" is the result of a political compromise between liberalism based on a predetermined order and social distribution - public regulated, in order that the capitalist system can be preserved in the western part of postwar Germany. Therefore, the "social market economy" collocation perhaps does not have scientific rigor, but it is a successful political and economic project.

The ordoliberalism and social market economy are the expression of a cultural and political German evolution, that marked in West Europe the political and economic space. Community Treaties have taken from ordoliberalism the competition policy, monetary policy and the social market economy system. At the same time, the Central and Western European countries has been influenced by ordoliberalism in remodeling own economic system.

3.2. Neocorporatism

After the crisis of the 70s, there were numerous works that promoted neocorporatism. Increased attention was focused on explaining the superior economic performance of corporate economies of Austria, Norway, Sweden, Netherlands, Denmark, Germany, Belgium, Finland.

A definition formulated by Woldendorp, J.J: "the term neo-corporatism is used to dominate any form of cooperation between the government and the relevant socio-economic interest groups of employers' associations and trade unions, aimed at forging a consensus over the formulation and implementation of socio-economic government policies, which in turn enhances the effectiveness of these policies in term of macroeconomic performance" (Woldendorp, 1997, p. 49-79).

An ideal corporatist political economy should gather more features (according to the study conducted by Alan Siaroff, 1999, p. 177-179):

- a high degree of unionisation, especially amongst blue-collar workers;
- relatively few unions grouped into highly institutionalised peak confederations which have the key role in wage bargaining, with ideally only one confederation for blue-collar workers;
- a business community dominated by large export-oriented firms, with a relatively powerful and centralised employer's federation;
- highly centralised wage bargaining, with national or a few key branchlevel agreements setting the basis for the entire economy;
- works councils in the main industrial firms and co-determination in key industries;
- a centralised, powerful, and active state involved at least moderately in the economy;
- a central – and joint – role for labour and business in such policies as training, education, and social programmes, often implemented through tripartite boards or agencies;
- the institutionalised input of business and labour in the government policy process, including the drawing up of the budget;
- a strong economic and social consensus shared by business, labour, and the state;
- recognition by business and labour of being joint 'social partners';
- a long-term outlook held by both business and labour;
- low levels of strike activity;
- voluntary and/or bargained incomes policies rather than state-imposed ones;
- independence of internal decision-making of the key actors;

In this new accepted meaning, in countries like Austria, Norway and Sweden, the corporatism is centered to confederations of labor work (ÖGB, LO and LO) and to strong social-democratic parties (SPÖ, DNA and SAP). Another countries considered as having a corporatist economy are: Netherland, Denmark, Germany, Belgium and Finland. At the other extreme, we have countries which situate themselves into non-corporatist economies as Canada or USA.

Conclusion

As we can see above, each economic crisis manifested globally entailed an expansion of economic doctrines that supported a more active role of the state in economic recovery, in order to protect man ultimately.

The current economic and financial crisis has brought new forms of state interventions that have been intended to stabilize the financial system. As has been seen,

without an appropriate economic policy and regulatory framework, a nation's financial system becomes vulnerable to crisis and jeopardizes the stability of the entire economy. This implies that both government and the market need to co-exist in a manner that respects the contribution of each other toward sustainable and vibrant economy in a democratic society.

As a result of economic crises, reality has shown that Smith's invisible hand is not the best solution for ensuring fair competition, as individual actions, private, motivated by selfish interests determine the economic and social imbalance. Therefore, this condition cancels equal opportunities to start in life and general welfare. Society must "save capitalism from the capitalists", ie, to take appropriate measures to protect the free market and the man by powerful private interests that seek to impede its effective functioning.

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