

STATE INTERVENTION IN THE ECONOMY

Andreea-Elena, Burduf (Mierlaru)¹

Abstract:

Starting from the definition of protectionism, an economic policy of restraining trade between states through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow, according to proponents fair competition between imports and goods and service produced domestically, I am compelled to find Manoilescu's vision of economy.

Was this system of political and economic measures of protection of national products from similar foreign products Manoilescu's vision?

In the spirit of classical protectionist doctrine, Manoilescu thought that the focal point of economy was the national economy, the sum of production assets and a conglomerate of individual traders. Amongst national production assets the foremost is the labour, capital and the others having only secondary importance in direct comparison.

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M. Manoilescu analyzed the state's economic role and how this is reflected in modern economic science.

He saw the state as having the role of setting certain convergent common goals for the whole society and to set rules that removes free will in economic decisions, thus creating the premises for a regulated economic space, based on the transition from little rationale of firms to big rationale of national economy.

He demonstrated the necessity of state interventionism, he has shared the conviction that through the alignment of the Romanian economic strategy to the one from the developed countries the lagging behind of Romania could be surpassed.

M. Manoilescu took the occidental type economic policies of the time, national and european corporatism as economic policy of internal relations between capital and labour and protectionism inside future Europe lead by Germany as international relations economic policy.

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1. Introduction

The topic of state intervention is one that has been extensively debated by economists and policy-makers for a number of years. State intervention in the production process is very common in most developing countries. The justifications given by the state for this form of

intervention includes reasons which are based on a variety of market failures including imperfections in factor markets, the paucity of information and high risk aversion on part of the private entrepreneurs.

Public enterprises has been used as an instrument of state intervention by develop and developing countries alike. In many cases their intervention is a reaction of the market mechanism limitation, in case of weakness of private entrepreneurship.

Protectionism in its classic version during the continental blockade of England during the Napoleonic Wars belongs of the past.

Historically, protectionism was associated with economic theories such as mercantilism (that believed that it is beneficial to maintain a positive trade balance), and import substitution. During that time, Adam Smith famously warned against the "interested sophistry" of industry, seeking to gain advantage at the cost of the consumers.

Mainstream economists agree that protectionism is harmful in that its costs outweigh the benefits and that it impedes economic growth.

¹ Bucharest University of Economic Studies, andreea_burduf@yahoo.com

The current post-crisis economy needs protectionism and publicly giving the measure is nothing but diplomacy.

Countries understand the need for a more balanced national economy will provide help domestic producers. In this case need not be necessarily duty system may be used as technical standards, forcing thus all exporters to meet these standards. Even though many countries use long these techniques to protect the market against competitive imports, it seems not always manage it.

2. Manoilescu's ideas on protectionism

Following the evolution of economic thinking in Romania between the world wars I discovered romanian scientific and cultural personalities whose ideas had a powerful influence outside Romania but mostly ignored or underestimated locally. One of these personalities is Mihail Manoilescu, romanian journalist, engineer, economist, politician and memoirist.

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Fall of communism was a major political upheaval for Romanian society and intellectual challenge for researchers in social sciences - including economists.

Romanian situation of economic thought on the eve fall of communism was completely different and much more serious than other communist countries.

It contrasts also with the situation of economic thought in the interwar period, when some economists Romanian (V. Madgearu, V. Slăvescu, N. Manoilescu, S. Zeletin), trained at sunset schools were aware economic ideas of the time and participated in the exchange of ideas internationally and overseas publishing doctoral theses, but often other works.

As the economists who have written works in Romanian (M. Vulcanescu Zane, V. Jinga), they knew also economic work appeared in the world, and their work is, within certain limits, erudite and original.

The absence of any open debate about the functioning of the economy and economic situation negatively influenced economic thinking in the post-communist who had lost time.

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In Romania, the first law to encourage national industry was voted in 1887, after adopting a protectionist import tariffs the year before.

M. Manoilescu's ideas of economy were very popular and were implemented in Latin America, his works being mandatory references in brazilian industrial circles.

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Manoilescu's protectionist theory was meant to represent an essential component of corporatist economic ideology, the theoretical support of economical policies of corporate states.

Nevertheless, for various reasons, his theories were never implemented in European corporate states.

In Romania, Manoilescu's ideas were rejected by the mainstream economic thinking and political forces of the time. Later, in the 8th and 9th decades of the XXth century, some of Manoilescu's concepts were used for organising and leading the centralised Romanian economy and fragments of his novel works were included in political propaganda writings.

After the second world war, Manoilescu's protectionist theory, removed from its corporate social and political context, would exercise a durable influence in economic thinking of radical orientation. The Romanian economist is seen, in many circles around the world, as the precursor of Latin-American radical economic theory.

In his economic analysis, M. Manoilescu started with the premise of labour productivity gap between agrarian and industrialised countries, claiming that the labour productivity in industry is far superior to that in agriculture in a 4 to 1 ratio because the capital value per industrial worker is much superior to that of agrarian worker.

The Romanian economist stated that the agriculture based revenue was up to 20% of the GDP in the analyzed countries and involved half of the active population – 52%, while the rest of 80% of the GDP was created by the other half – 48%.

As a consequence, half of the active population, the half involved in industry, produces four times more than the other half, involved in agriculture.

Manoilescu also noticed that the variance of productivity across various countries is much larger in agriculture than in industry.

This stems from the fact that modern industry has more or less the same technical and economic features, irrespective of the country, and the productivity in industry is less dependent on the local cultural factors, while agricultural is closely related to the general development of the people.

Therefore, the industrialized countries, having superior national productivity, gain from international commerce at the expense of lower productivity agrarian countries.

This raises the issue of industrial development of agrarian countries through policies of protection of national raw materials in international commerce.

Manoilescu analyzed the synthetic national advantage of certain production branches as an expression and result of two main components:

- Production output national advantage – linked to labour productivity ;
- International trade national advantage – linked to the idea of adding value through export.

Protectionism is the object of vast criticism, because, beside positive, has numerous negative aspects like suppressing an efficient stimulus represented by foreign competition. As a result of tough international competition and protectionist policies of many states, in 1948 the General Agreement on Tariffs and Trade was formed as an inter-governmental organism with the purpose of liberalization of international trade. As of January 1st 1995, G.A.T.T. was replaced by the World Trade Organization with the main objective of fighting protectionism and liberalization of international trade. Protectionism is the opposite of free trade.

Neoliberal in his thinking, Manoilescu has created a theory that it's both unitarian and original regarding protectionism and international trade, easily recognizable in international economic, political and intellectual societies.

Mihail Manoilescu supported protectionism as a means to develop industrial economy in agrarian societies.

After the great depression of 1929, his book, 'The theory of protectionism and international exchanges', was the basis for justifying protectionism in Brazil while in Romania he had to face hostility from authorities, making it impossible for him, even if for several months in 1931 he was the Governor of the National Bank, to apply his vision to end the economic crisis in Romania.

As M. Manoilescu's work was published between 1923 and 1941, an obvious question is whether and how his theories remained a reference in economic thinking, knowing that since then the economic science has known many changes through social, political and technological advances.

No matter how minimal the state wished to be as against the market, namely to limit itself to creation of the coherent, correct and stable legislative climate for the business, it cannot however let allocation of public resources, budget allocation, provision and consumption of public goods and services or provision or of social aid for the people in need exclusively up to the market.

The understanding of M. Manoilescu highlights the state and evolution of the Romanian modern economy as basis of the main features of the economic and sociological thought in the inter-war period.

He linked politics to economy and shared the economic neoliberalism of the time. At the end of the first world war, when M. Manoilescu began to work to his theses, the western type capitalism already demonstrated the limits of the free competition, because of the increasing vulnerability and contradictions concerning the monopolies, the non-monopolist owners, as well as the labour force, inside each country and on the international market.

For this reason, the state was transformed in an important economic player, intervening in and sweetening the conditions of competition through contracts, subventions, state ownership, fiscal systems, social expenditures, more or less, macro planning and obviously corresponding legislation.

There are reference figures of Romanian science and culture whose ideas have strong influence abroad, but are ignored or under estimated in the local area.

A case in point, is the scientist Mihail Manoilescu. Engineer, economist, sociologist, political scientist and historian, professor at the Polytechnic Institute of Bucharest, Chair, Political Economy - Organization and Rationalization, Manoilescu is an exceptional personality.

In the thirties of the last century his works were published in Spain, Portugal, Brazil and Chile. His ideas about economics were very popular and have been applied in Latin America, and therefore his works were mandatory benchmarks Brazilian industrial area.

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In Brazil and other latin-american countries political and social elite proved pragmatic in thinking and in action, having the liberty to adopt Manoilescu's theories as fundamentals of their economic development strategies.

Jeronimo Moscado, brazilian ambassador in Bucharest, urges: 'Romania should not be modest. Romania is a great cultural power. It remains to be seen if romanian elites will accept this reality'.

3. Applicability of protectionist measures in the current economy

Protectionism is the economic policy of restraining trade between states through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow (according to proponents) fair competition between imports and goods and services produced domestically.

This policy contrasts with free trade, where government barriers to trade are kept to a minimum. In recent years, protectionism has become closely aligned with anti-globalization and anti-immigration. The term is mostly used in the context of economics, where protectionism refers to policies or doctrines which protect businesses and workers within a country by restricting or regulating trade with foreign nations.

Protectionists believe that infant industries must be protected in order to allow them to grow to a point where they can fairly compete with the larger mature industries established in foreign countries. They believe that without this protection, infant industries will die before they reach a size and age where economies of scale, industrial infrastructure, and skill in manufacturing have progressed sufficiently to allow the industry to compete in the global market.

Protectionists argue that comparative advantage has lost its legitimacy in a globally integrated world in which capital is free to move internationally.

Protectionists believe that allowing foreign goods to enter domestic markets without being subject to tariffs or other forms of taxation, leads to a situation where domestic goods are at a disadvantage, a kind of reverse protectionism. By ruling out revenue tariffs on foreign products, governments must rely solely on domestic taxation to provide its revenue, which falls disproportionately on domestic manufacturing

Today, in a period of post-acute crisis, world leaders agreed not to impose new restrictions and measures directed against boost their exports by various methods.

Protectionist measures appeared even within the EU, which in principle should not exist. France has banned the import of new models of Mercedes cars in Germany. The official reason given is that the Germans were using other refrigerant for air conditioning in cars than allowed by the European Commission.

Dispute exists globally, such as patent war between Apple and Samsung, due to which the United States might prohibit sales of smartphones and tablets in South Korea, or the conflict between China and the EU that could lead to disappearance of European markets cheap solar panels and Chinese stores Italian and French wines.

Governments in many developing countries try to protect their consumers, which finally are deprived of freedom of choice. Most industrialized governments have long held that laissez-faire capitalism creates social evils that harm its citizens. To protect those citizens, these governments have enacted laws that restrict what companies can and can not do in pursuit of profit.

4. Conclusions

Manoilescu's protectionist doctrine could not be implemented in Romania because it wasn't acceptable in the geopolitical context of financing the Romanian state and, after 1944, the course of Romania's development was dictated by foreign powers.

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Protectionism is frequently criticized by economists as harming the people it is meant to help. Mainstream economists instead support free trade.

Economic theory, under the principle of comparative advantage, shows that the gains from free trade outweigh any losses as free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage.

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