State Intervention in Economy. From Minimal State to Welfare State

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Abstract: Contemporary crisis brought new challenges for policy-makers. Alarming increase in public spending, combined with a high level of debt has forced the governments to seek new ways to intervene in the economic activity, without affecting normal economic cycle. The main purpose of this paper is to analyze state involvement in the economy through various means depending on existing political doctrine at some point. Secondary goal is to identify the best way forward in the current economic and political world. In our investigation we will use a research strategy based the documentary and content analyses.

Keywords: public economy; public intervention; liberalism; sector public

1. Introduction

The present financial and economic crisis seriously undermines the economic base of the globalized world. The global crisis has decimated small businesses and large corporations. Worse, states that a year or two ago were the subject of case studies for success in growth and general prosperity are now threatened with bankruptcy. (Pavel, 2009, pp. 14-21).

The international financial and economic crisis relaunches the discussion on the nature of capitalism and the political-institutional model that favored the development of this economic system since the eighteenth century. Neoliberal paradigm adopted by developed economies as another major economic crisis - the 1970s, it gradually abandoned as the State is called upon to intervene in the economic sphere to mitigate the social costs of the crisis and prevent worsening

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economic downturn. In this international context the political agenda of the left parties is favored politicians and intellectuals (neo) liberals already fearing a revival of socialist doctrine and policies. (Adrian Spirchez, 2009, p. 35)

State interventionism in the economy has been a hotly disputed topic among various authors, both ancient and contemporary. Decisive arguments for the necessity of the government intervention are that most people want to mitigate the disastrous results that sometimes it produce market for some people or to improve the functioning of markets they believe that it works well. This problem should not lead to a definite choice between the market economy and the system of centralized economy, but the need for a mix of market and public intervention that best suits specific objectives of public policy. An analysis, however brief we would want to be, the reasons which lead to public intervention must consider the following (Ani Matei, 2003, p 43):

- on the one hand, inefficient market outcomes may be caused by monopoly power, externalities, public goods and / or asymmetric information;
- on the other hand, there are possible causes that are not related to economic efficiency, such as distributive justice and the need to protect some individuals from decisions made on their behalf by others.

Stiglitz (Stglitz, 2000, p. 6 cited by Lazar & Zai, 2004) considers that worth mentioning and the four grounds of systematic failure of the State to achieve its objectives:

- limited information;
- limited control over private market dynamics;
- limited control over the bureaucracy;
- limitations on the political process;

Professor Dan Popescu (Popescu, 2000, p. 146) considers that among the factors behind the failure of free markets to allocate resources efficiently and to maximize opportunities to prevent exchange rates are:

- difficulty individualization of property rights;
- the existence of significant transaction costs;
- failure negotiation of mutually beneficial exchange agreements.

Literature and economic analysis uses a concept of intervention favoring public market failure arises in a situation of neoptimality between supply and demand of goods (Matei, 2003, pp. 29-43). Analyzing in terms of efficiency in the allocation of society's resources, market failure will be caused following phenomena:

1. *Monopoly power* refers to firms facing the demand curve with negative slope and to maximize profit made goods whose prices exceed marginal cost, a situation that leads to inefficiency. Although some market power is maintained through artificial barriers to entry, this power often occurs naturally, as in many sectors the most expensive way to produce a good or service is to have fewer manufacturers than market size. Standard solutions are government antitrust policies and regulation of public services;

2. *Externalities*. Located to the attention of the great economists such as Marshall, Pigou, Samuelson, the externalities phenomenon has theoretical and practical relevance, is the origin of decisions and extremely important theories: the size of state intervention in the economy, market failure theory public decision, etc. The externalities are effects produced by economic agents, called producer of externality or issuer, and perceived by the operator B, called receiver without A is offset the positive effects and B to be compensated for the effects negative. Externalities are market so unmediated direct effects, i.e. they do not reflect the costs and prices and therefore not reflected in market equilibrium. (Marinescu, 2007, p. 14)In order to understand this phenomenon we must distinguish between private cost and social cost. First measure the best alternative use of available resources of the private entrepreneur who makes decisions, and the second includes, in addition, and the best use of all available resources in society. Economic theory shows that the gap between social and private costs arise where there are externalities that are nothing but "transaction costs or benefits are paid or received by other members of society and that transition partners disregard. Externalities, either harmful or beneficial, causes market failures: private marginal benefit marginal social cost varies, causing removal from the production of socially optimal. If beneficial externalities, externalities will result in net benefits, may have a very low production or excessive production for harmful externalities embodied in net costs (Ciucur, Gavrila & Smith, 1999, p. 348.).

3. *Public goods* and public consumption goods are those goods for which the total cost of production increases with the number of consumers. In the best examples of public goods are national defense, police protection, information, power, supply of fresh air and outdoor concerts, etc.. So, once a public good is produced, it is available to everyone. As a result, the private market will not produce efficient

amounts of public goods because, once the good is produced, is either ineffective or impossible to make people pay for using it. Public goods cannot therefore be sold on the market or offered on markets. The highlighted here are also called pure public goods.

4. *Asymmetric information*. As shown, in general, information is a public good, but when it gain expertise features may create market failures due to the different access the various partners in a transaction. Important sources of market failure that arise when information kept secret is bought and sold are moral hazard and adverse selection.

2. The Evolution of the Economic Thought Concerning Public Intervention

First to put a special emphasis was *the mercantilists*. For mercantilists, and all those who were then regrouped under the banner of the economic philosophy of merchants and statesmen of the sixteenth and seventeenth centuries, the foundation of wealth is accumulated gold reserves by country, so its ability to obtain from the neighbors more than he gave without discovering or using other gold mines. This is a vision of a permanent trade war, and the state's role will be to put up barriers to imports, discovering and conquering, while most of new opportunities for exporters. The mercantilists are adept of massive state interventions that lead to permanent trade war with other countries. (Matei, 2003, pp. 29-43).

Physiocrats represents of a school of economic theory, associated mainly with the name of F. Quesnay and developed in France in the eighteenth century. Physiocrats talked little about state or in terms remaining far from on contemporary concerns. Their action program provided, inter alia, the following: • organization of French agriculture on a capitalist basis (with predominance of large farms); • develop an "economic order" favorable agricultural development by:

- promote a policy of high prices for agricultural products (which could only sell net income);
- full exemption of farmers from paying taxes and sending them on rent that landowners received;
- liberalization of trade in agricultural products and encourage exports.

Compelling to support their program, Physiocrats developed a belief system accordingly. The central idea of such an approach was the rule of nature. (Popescu, 2004, p 98) But their work will not be without consequences for classical and neoclassical traditions in terms of perception of public interventions. Physiocrats criticized mercantilist view that wealth is created by hand and that production has the most important role in creating wealth. They identified as the source of accumulation, excess production made over resources used in production. Physiocrats reduce state guarantor notion of natural order, which is synonymous to that time, with the landowners.

Adam Smith. The main objective of the theoretical concerns of Adam Smith is the study of "national wealth" (Popescu, 2004, p.139). Exceeding the predecessors, the classic English define national wealth as "all cargo goods available to a nation at a time." Thus, Adam Smith made progress in economic science:

A. Expand the scope of national wealth from the one class of goods (agricultural - to physiocrat) to all cargo goods.

B. Expand the productive sector from a single branch (the movement - the mercantilist, i.e. agriculture - the physiocrat) to all activities of commodity production.

C. Even tributary to physiocrat influences Adam Smith believes that there are three factors of production (nature, labor and capital). Also - even inconsistent - he assigns work role primary factor of production.

He examined the issues of public intervention tracing paths of tradition will be renewed rather than changed. Following the legendary "Fable of Mandeville", where private vices transform into public virtues, the market will become invisible hand that knows how to do from researching of self-interest of each the guarantee the welfare of all. According to the principle of "invisible hand" on the market would exist an adjustment mechanism that allows coordination and harmonization of individual interests: market operation leads to the appearance of spontaneous order as result of confrontation of all offers and all claims. (Teulon, 2002, p. 83)

Adam Smith distinguishes two types of expenses:

• first known traditionally as regalien functions: "the first duty of the sovereign, which is to protect society from violence and aggression of other independent societies, can only be achieved by means of a military force ... The second duty of the sovereign, which is effective protection possible for each member of the society against the oppression and injustice of the other members " (Smith, 2000, p. 342, quoted by Matei, 2003, pp. 29-43) ... So here we find external security and national defense, police and justice;

• The following are more complex but also more interesting from the point of view of public economy: "The third assumption is the sovereign debt and public affairs support, representing a high interest to society, with no profit can never be covered by charges an individual or a small group of individuals" (Smith, 2000, p. 382, quoted by Matei, 2003). In the context of the time, were thinking of bridges, roads and railways. Initial investments are so important in modern terms, costs for users to pay for access are high, that it is impossible achieve a satisfactory return on capital employed.

Thus public interventions economy find in Adam Smith two of its fundamentals:

- situations in which, for economic reasons, no agent is willing to invest in useful activities in terms of the community (this is the case of public works);
- situations where individuals do not intend to raise their consumption to the required level, showing lack of provision of long-term positive effects on public services. To this end it should be noted principle that "public service is not never done better than when their reward is only a consequence of what they have achieved and is proportional to toil committed to their achievement."

Adam Smith's contribution also extends to the taxes. Aware that there are two alternative ways for taxes, benefits and public spending Agents retained their ability to pay tax, Adam Smith seems to choose a date for both. Adam Smith did not hesitate then to extend its reasoning on almost all public spending. It is also mentioned the Adam Smith's insistence for the budgetary balance.

Smith recognized the need for state intervention, for example, rates in industries in the early stages, and for performing the three functions of the state: defense, justice and some public works.

German historical school. For this school, represented by List, Ritschl and Wagner, the state personifies the society and society will have to meet the needs that it feels, from the development. State should therefore be entrepreneur of development in all its complexity and, as such, to put barriers to protect domestic industry, communication ways for industrialization, local services etc.. From this perspective it is important contributions of F. List in his National System of Political Economy (List, 1973, pp. 23-25, quoted by Matei, 2003, pp. 29-43). In the minds of F. List, the development consists of five successive stages (primitive farming, agricultural, commercial, agricultural, manufacturing, commercial, industrial). Moving to the last phase, problems encountered for many nations in the mid-nineteenth century, entails its birth and consolidation.

Protectionism in the sense of F. List, is not an intrinsic necessity of development, but it is necessary in the first instance, and the state becomes the guarantor of economic growth. This argument, used extensively by Germany and the United States during the nineteenth century and beginning of the twentieth century, was taken over by a large number of developing countries, the old guards moving to another level of protectionist barriers. (Popescu, 2004, pp. 330-335). This type of approach will be taken in a more empirical manner by Ad. Wagner (Matei, 2003, pp. 29-43) in his attempts to justify public expenditure growth in industrialized countries. For Ad. Wagner, the state should not stop at protecting new industries, but it must extend to the production of services for the community: railways, transport, health, etc. reaching the "production of intangible goods indispensable community life." (Popescu, 2004, p. 470)

This position is found also at Ritschl: "Force is not fully effective means of achieving community spirit if not distributed to all community members."

David Ricardo, whose main work was "On the principles of political economy and taxation" was concerned with the distribution of the tax burden, considering that determine the tax was, to a large extent independent of the establishment costs. Regarding costs, they estimated that government intervention should be limited to a few specific responsibilities (defense, justice, education). The most extreme of these classical authors, Jean-Baptiste Say, considered as a source of wasteful public spending and, therefore, the best financial plan would be to spend less, state action being limited to the protection of the individual. (Profiroiu, 2001 pp. 17-18)

The state at Marx. Karl Marx combined "melted" and summarized in an original manner, English political economy, German classical philosophy and French utopian socialism, creating a system of thought and practical action unit and an internal structure of rigorous logic. (Popescu, 2004, p. 356) Characterized by radical content of addressing the role of the state, Marx's work assigns to the state a dual role, repressive and ideological, in the service of the ruling class. Capitalist society being crossed by fundamental antagonisms, the state is determined to organize affairs and it will manifest as a mechanism of repression. Marxist analysis shows that government intervention will reduce the forms of repression, more or less direct. At the same time, the state must include the production of a number of services that will broaden the base of capitalist accumulation, returned directly capitalists services (investment in transport networks) or indirect workers and capitalists (investment in training grants to fight against extreme poverty and so on).

Italian and Swedish schools. In the late nineteenth century and early twentieth century appeared numerous contributions in Italy and Sweden, which would lead to a different vision of public interventions. But, rejected by traditional critics that made the apology of public interventions, this vision will legitimize a reasonable response stating the benefits, costs and difficulties. For Mazzola, there is a useful category of consumer goods, but whose production will not be done in a private company and give their producers the possibility of achieve benefits: the state personifies the society, which may cover losses through taxes, is therefore the best place for achieve these useful products. In his study, analysis is not significantly different from that of Smith, but Mazzola will renew and add a marginal approach.

In the years after 1929 and until after World War II, writers such as Keynes and Beveridge combines economic and social rationales to justify an expansion of state functions and raises issues of current interest: to where there is supply and demand regulation ; and how to integrate concerns on redistribution?

More pronounced disturbance of market competition mechanism under the impact of monopoly power large corporations necessarily required the direct intervention of the state to ensure economic stability and balance and thus the appearance of a new direction of thinking and economic policy - Keynesian.

Keynesian macroeconomic analysis introduces in theory and practice of market economy a new economic agent the state, and develop multiplier theory (investment, consumption, savings, budget spending). The theory behind the new Keynesian macroeconomic policies aimed at preventing or mitigating the economic crisis, combating unemployment, the achievement of economic growth, namely to ensure increasing social product and national income as a strong trend and future. (Prahoveanu, 1999, p. 38)

Keynesian analysis enabled the integration of public finances in general economic activity. The state budget has become a priority of economic policy, an essential weapon in the regulation which public power is trying to put on. (Abraham - Frois, 1998, p. 370)

The role assigned to money, the insurance mechanism against an uncertain future, enabled him to postulate the idea of Keynes's liquidity preference theory and develop the interest rate, which highlights the distinction between decisions saving and investment decisions. Keynes's system of equality between saving and investment is achieved through changes in aggregate income, not by interest rate changes. Savings and investment are not equal, as shown Keynes, than otherwise equivalent to write equality between supply and aggregate demand (Matei, 2003, pp. 29-43).

The market economy being an economy with decentralized essentially cannot give answers to problems involving ex ante coordination of different agents, it will provide them ex post coordination, but variable quality. State, that is, effectively, a center of collective decision ex ante, can therefore intervene and settle the power constraint failures. In this way, the foundations of the welfare state were drawn, and the economists to come, with more specific reference to Beveridge, will exploit these opportunities. The concept of the welfare state means, strictly speaking, redistributive function exercised by the state through the social security system, which guarantees all persons the enjoyment of social benefits in exchange for the compulsory social contributions. (Plumb, Androniceanu & Abaluta, 2004, p. 30) broadly speaking providence state means all state functions in various fields: social protection, and production of collective services (education, etc.)., economic intervention and regulation conjuncture. After a period of development of the welfare state (until the 80s), speaking today about his crisis, which takes three aspects: financial, efficiency and legitimacy.

a) The financial crisis of the welfare state refers to:

• Strong growth in expenditure on social protection, which required a repeated increase in the level of compulsory levies;

• lower revenue growth.

Benefits paid (mainly medical expenses, unemployment benefits and pensions) have progressed faster than sampling, leading to a deficit of the social security system.

b) The crisis of the welfare state efficiency refers to the high cost of goods and services that the state produces noncommercial himself.

c) The crisis of legitimacy of the welfare state caused by increasing difficulties in meeting the basic principles of its operation:

• the principle of mutual insurance against risks: the risk becomes a reality only for some of those who are insured;

• principle of solidarity towards the weakest: it is considered that the poor, the sick, the elderly and the unemployed are entitled to assistance.

Modern liberalism supports this protective role of the state, but criticizes its current scale and development without limits, ruling for a minimal state.

The reason liberal critics refer to:

a) the perverse effects of aid: protection can generate assisted mentality, those who benefit from it could expect passive welfare, happiness and protection from any risk, not to try to cope by themselves;

b) undue burden (compliance) social penalizes job offer: increasing social contributions and especially Employers click wage costs, thus acting as a brake on employment (employers are incentives to substitute labor with capital, to replace workers of machines);

c) reducing inequalities and the theory of "equitable inequality" (John Rawls) vertical redistribution (from rich to poor) is legitimate as long as these spreads are high. Today, in developed Western countries, a large part of the population feels that belongs to middle class ("middle class"), following the need to reduce inequality is less pronounced.

William Henry Beveridge: for a welfare state. "What we do for war, why do not do for welfare? - This was the question posed, since 1914, by William Henry Beveridge, director of social services, an idea that appeared in his famous report in 1942 (Beveridge, 1942) and the significance behind the British system reform health and special services in 1948. (Matei, 2007, pp. 29-433) Beveridge looming financing problems of the pension system in a society where the number of children is becoming smaller and the number of older people increasingly higher. Old age pensions should be limited so as not to incite premature withdrawals of activity and to induce firms to finance themselves complementary retirement pay. At the end of his report, Beveridge goes on. New public service role is to put an end to the five problems facing post-war industrial society and hampering reconstruction: needs through redeployment; disease through health system, ignorance, educational reforms, laziness and limitation, by offering employment and social reintegration. Beveridge's problem is based on public economics, strictly speaking, to achieve the implementation of a system of compulsory and voluntary.

Neoclassical welfare economics. Contributions of Keynes and Beveridge were equally important in terms of public economy formation problem: how to build a theory of the allocation of public goods compared to private? One is to prove that the state can intervene and another to optimize its interventions. Arrow, Samuelson and Musgrave tried to integrate state in the analytical scheme on the basis of welfare economy metodological individualis.

School of Public and collective choices. During the '70s, many economists, among which we mention the Buchanan and Tullock, adopted a different position from that of economic welfare, having the same frame of reference. Methodological individualism will not be discussed outside the approach followed to analyze public intervention. For followers of this school, a recommendation for state intervention should not be done in the name of research results, but the procedures and the route to follow. *Neoinstitutional school*. Development of neointervention theories allowed, in recent years, it raises the question of State in a more comprehensive and less circuitous, as didn't do the school of collective choices. Considering the wealth when the development depends fundamentally on the manner in which ownership is defined or punished, its role becomes crucial for development. As an institution, the state is found in the middle of allocation activities, aiming also taxes and subsidizing their own needs.

Neoliberalism - the alternative Keynesianism in state involvement in economic issues. In terms of contemporary postwar economy a very influential current of thought, which is based on the classical theory of economic liberalism is the neoliberalism. It opposes collectivism in any form would show, proclaiming faith in the price mechanism, competition and private property. In neoliberal thinking free competition is not a spontaneous act, but must rest on a legal order made, which involved state intervention, but these should only create the legal framework for competition event, harmonious functioning of prices and limiting the role of big monopolies.

The most prominent representatives of this trend (Milton Friedman - USA, FA Hayek - Austria, Henry Lapage - France etc.) that are followers of the supply-side, explain the shortcomings in Western economies, not by mechanisms of market economy and economic liberalism, but by market failure and its freedom by excessive state intervention and permanent manipulating monetary and budget.

Criticism of the state, commonly admitted, leaves, primarily from growth to spectacular failures of the economic system source and the sampling required that he receives from taxpayers to exist and develop.

3. Conclusions

In 2009, Amartya Sen, the renowned economist of Indian origin, Nobel Prize winner for economics, in an analysis of economic developments see crisis statements sometimes clumsy political leaders which demand "new capitalism", a new way. But Sen advises them to (re) visit the fundamental texts of the first theorists of capitalism to reveal the true philosophy of the modern economic system. A close reading of the works of Adam Smith therefore considers Amartya Sen, will reveal the fact that not the nineteenth-century socialists or Karl Marx, were the ones who spoke for the first time the relentless nature of the capitalist market, whose practice be supervised by the State, but to the one of the main theorists of capitalism. In other words, the problem is not to invent something new overnight, not to abandon the economic ideas enunciated but to change the paradigm for implementing these ideas. Known causes of the crisis, which seems to have been forgotten are the primary economic mechanisms. The return to origin can be the solution for addressing economic issues, on the one hand and the way of state intervention on the other. In the early 90 Wall Street obsessively required in applying a process of “dereglementation”. The market is the only mechanism that can solve economic tensions, they said. After 20 years the state is required to create new mechanisms to correct the gap left by market failure.

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