

Is government going out of fashion?

Economic thinking, akin to fashion, changes so quickly that yesterday's truths become today's falsehoods, yesterday's oddities, today's dogma. Once, not long ago, state control of a large area of the economy was accepted. Then came Thatcherism and Reaganomics; state intervention in the economy was attacked and pravastatin came to be increasingly in vogue. The late Eighties and early Nineties saw the collapse of socialism and central planning. Markets assumed dominance, 'market forces' became the catch phrase.

In the past, too much was entrusted to the state and it delivered very little, especially in the field of production. Perhaps in violent reaction to that non-performance, today economists call for the other extreme- that there is no need for a regulatory mechanism devised by the state to oversee even basic economic activities. Does the government, then, have no role at all in the economy?

It is interesting to note that in the world's largest economy, namely, the USA, or in other industrialized countries, government intervention had a major role to play when the foundations for rapid economic growth in an overall market setting were being laid. Well-known American economist, Dr Joseph E. Stiglitz, has pointed out that there is a third way', or 'many third ways', between the two extremes of rigid state control and laissez faire.

The US in 1863 passed National Banking Act that helped to create a national financial system and laid the foundations for an era of financial stability. The East Asian economies- the miracles of modern times – would not have been what they are without state intervention. Governments played a major role in universalizing education and creating an education aided human capital –which was instrumental in the transformation of those economies. Again, in the US, too, in the late eighteenth century, the federal government took the initiative to set aside land for public educational institutions. It was the government which helped to establish the public university system in the US. If technology played an important part in the economic development of the industrialized countries and East Asia it may well be worth remembering that government policies and active participation by the state in research activities and financial support went a long way to build up technological capabilities. The US government has financed much research activity in telecommunications and agriculture. Indeed, the internet was the creation of the US government in the late sixties. Today, and in the future, government has to take up the challenge of environmental degradation besides maintaining safety nets in appropriate areas.

As Dr Stiglitz points out, “much of the role of government can be viewed as establishing infrastructure in its broadest sense- the technological, educational, financial, environmental and social infrastructure of an economy.” Markets cannot work in a vacuum and this infrastructure is necessary if markets are to fulfill their role increasing wealth and living standards. And the broad infrastructure can be constructed primarily by the government as it would be beyond the capacity of any single firm. Furthermore, as the scope of the market expands, the state has to bring in fresh regulations which, in turn would lead to further expansion and strengthening of the market.

There are some constants as far as the role of government in the economy is concerned. These are in the fields of education, building appropriate institutional infrastructures and assisting and supplementing markets. And in these areas the role of government remains crucial.

Government, then, is not going out of fashion; only certain of their functions are becoming obsolete.