

The Proper Roles of the Government in Economic Development: The U.S. Context and a Highly Globalized World Economy

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Abstract

The role that the U.S. government is playing to solve its recent economic crisis obviously indicates an ongoing debate among scholars regarding the proper role of the state in its economy. Seeking to understand the government's current functions, this paper examines scholarly and mass publications developed by public administration scholars, and argues that the government's tasks have largely expanded at all levels both in terms of the spending and the policy areas/issues in which they have to become involved. In order to determine some acceptable idea concerning the proper roles of the government in promoting economic development, this paper also discusses the arguments of supporters and opponents of the government's intervention to the growth of the economy. This paper claims that in today's complex world, in which the government unquestionably has gotten bigger, the appropriate role of the government in dealing with its economic problems could be drawn from the compromise idea, especially the idea that suggests that the government play a limited role in normal economic situations and rather take intensive action during crises.

Keywords: *Government Economic Development Role of Government*

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บทบาทที่เหมาะสมของรัฐบาลในการพัฒนาเศรษฐกิจ: ประสบการณ์จากสหรัฐอเมริกา

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บทคัดย่อ

บทบาทของรัฐบาลสหรัฐอเมริกาในการแก้ไขวิกฤตการณ์ทางเศรษฐกิจในปัจจุบันทำให้ข้อโต้แย้งเกี่ยวกับบทบาทที่เหมาะสมของรัฐบาลในการเข้าไปแทรกแซงกลไกการแก้ไขปัญหาด้านเศรษฐกิจซึ่งมีการถกเถียงกันมาอย่างยาวนานในหมู่นักวิชาการถูกหยิบยกขึ้นมาอ้างอิงอย่างเข้มข้นอีกครั้ง บทความนี้มุ่งทำความเข้าใจเกี่ยวกับหน้าที่ความรับผิดชอบของรัฐบาลและให้ความสำคัญกับการแสวงหาบทบาทที่เหมาะสมสำหรับรัฐบาลในการเข้าไปเกี่ยวข้องกับการพัฒนาทางเศรษฐกิจของประเทศผ่านมุมมองทางด้านรัฐประศาสนศาสตร์ รัฐศาสตร์ และเศรษฐศาสตร์การเมือง จากการวิเคราะห์เอกสารร่วมกับข้อมูลวิจัยเชิงปริมาณที่สถาบันวิจัยและ/หรือนักวิชาการท่านอื่นได้รวบรวมไว้ (โดยเฉพาะในบริบทของประเทศสหรัฐอเมริกา) บทความนี้นำเสนอว่าภายใต้บริบททางเศรษฐกิจ สังคม และการเมืองในปัจจุบันที่รัฐบาลมีขนาดและหน้าที่ความรับผิดชอบมากขึ้นและมีแนวโน้มที่จะมีมากขึ้นต่อไปอีกในอนาคต บทบาทที่เหมาะสมของรัฐบาลในการเข้าไปมีส่วนในการพัฒนาเศรษฐกิจของประเทศสมควรพัฒนาขึ้นจากแนวคิดที่สมดุลระหว่างการให้รัฐบาลมีบทบาทจำกัดและเอื้ออำนวยให้เศรษฐกิจเติบโตไปตามกลไกตลาดในสถานการณ์ปกติและการเข้าไปแทรกแซงกำกับ ควบคุมกระบวนการทางเศรษฐกิจอย่างใกล้ชิดในยามวิกฤติ

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Introduction

The roles that the U.S. government plays in solving the country's recent economic crisis obviously indicate a lively debate among scholars regarding the proper role of the state in promoting economic development. While some scholars (e.g. Stillman II, 1990) claim that the place of public administration in the United States stems from American's peculiar "stateless" origins, much evidence, for example as shown in Donald Kettl and James Fesler's *The Politics of the Administrative Process* (2005), asserts the growth of the American government at all levels (i.e. federal, state, and local government). Moreover, from an economic view, the role that government should play in economic policy has also been contested between pro-market and pro-state camps. Indeed, the idea that the government should have a limited role in the economy was developed from the classic capitalist theory of Adam Smith (i.e. in his *The Wealth of Nations* [1776]) to the Neo-Capitalism of Milton and Rose D. Friedman's *Free to Choose* (1980) and Andrew Schmookler's *The Illusion of Choice* (1993). In contrast, the idea of the necessity of government intervention in the economy, particularly when the country is facing a crisis, was introduced and is still being developed by the school of thoughts such as the Keynesian (i.e. John Maynard Keynes' *The General Theory of Employment* [1936]) as well as Neo-Keynesian (such as by the works of Paul Krugman and Joseph E. Stiglitz). Hence, what should be the proper role of the government in promoting economic development (especially in the United States) is an interesting question.

This paper examines the ongoing theoretical debate among political, public administration, and political economy scholars on the proper role of government in promoting economic development. We argue that in today's complex world, in which the government unquestionably has gotten bigger, the appropriate role of the government in economic policy can be drawn from the compromise idea, in which the

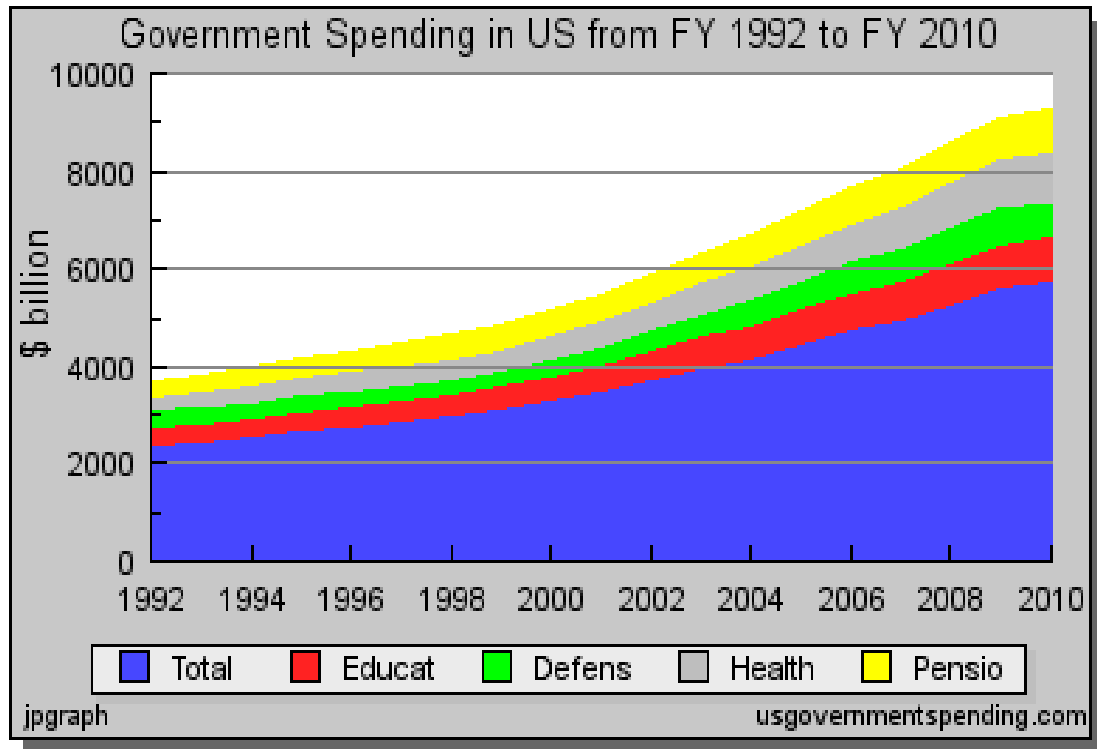
government should keep its limited role in normal situations and take more intensive action during a crisis. The method of examination consists mostly of qualitative analysis, and a small amount of quantitative data gathered from some secondary sources employed by other scholars is applied to support this paper's arguments, especially on the growth of the government in the United States.

The organization of the research contains three major discussions. The first section examines scholarly and mass publications developed by public administration scholars, especially in the U.S. context, in order to ascertain the administrative ideas and political philosophy regarding the functions of the government and the different approaches that the government has used to carry out its public business regarding the economy. Then, the second section discusses the arguments of supporters and opponents of the government's intervention in the growth of the economy, focusing mainly on the theoretical debate among political economic doctrines. Selecting and combining some "part" of each theory and/or approach that might be useful or suitable for today's situation, the last section aims to suggest an acceptable idea of what the government should properly do for its economy.

Functions of the Government in the U.S. Context

Any discussion of what the government does, and how public administration helps do it, must begin with a look at how the government has changed over the past century (Kettl and Fesler, 2005: 31). During the last hundred years, the U.S. government has grown dramatically; the federal, state, and local governments combined spent \$1.6 billion in 1902, saw that amount rise to \$70.3 billion by 1950, and to \$3 trillion in 2000. In addition, throughout the past decade, a large part of the government budget has gone to the "big four" areas: pension, education, healthcare, and defense (Figure 1).

Figure 1



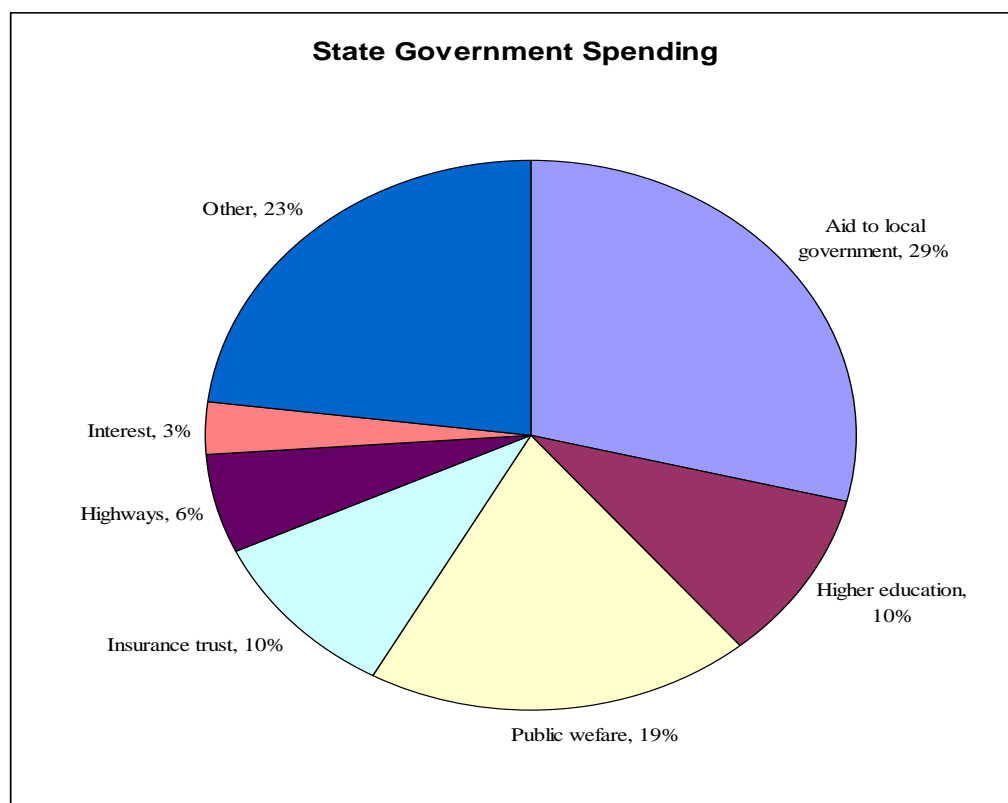
Source: <http://www.usgovernmentspending.com>

<http://www.usgovernmentspending.com/downchart_gs.php?year=1992_2010&view=1&expand=&units=b&fy=fy09&chart=F0-total_30-fed_10-fed_20-fed_00-fed&stack=1&size=m&title= &state=US>

With those amounts of total spending and knowing where the money goes, we cannot reject the vital role that the government inevitably plays in a nation's economy. Governments enforce the laws, protect natural resources, purchase goods and services, and provide for the national defense. The question thus becomes, what type of role should the government play in a specific country in a particular circumstance? In the United States, the place of public administration stems from American's peculiar "stateless" origins (Stillman II, 1990). The U.S. Constitution created a set of institutional rules that acknowledged the prominence of the government at the

end of eighteenth century. At the same time, the Constitution limited the capacity of the national government by dividing its authority among institutions whose agreement was required before the government could act. This system was intended to allow a broad measure of individual liberty and to inhibit the national government from abusing citizens' rights, and it did. The structure also made it difficult for the national government to manage the nation's economy. In this aspect, the government is portrayed as playing a minimal role while its major task is to create an institutional structure in which political and economic activity can take place.

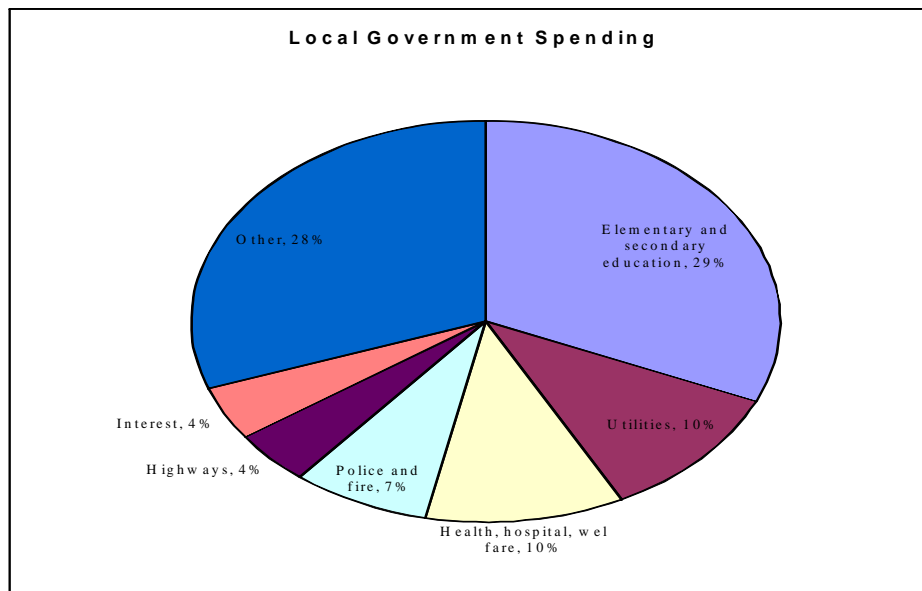
Figure 2



Source: Census of Governments, *State and Local Government Finances in 2000-2001*, <<http://ftp.census.gov/govs/estimate/01st1001.xls>> (cited by Kettl and Fesler, 2005: 34)

However, the challenge of designing a nation's political and economic institutions is formidable and never ending. Today, governments in every front use their resources to promote the economic well-being of their regions. Concentrating their services on welfare, higher education, and highways (see Figure 2) since the 1990s, the state governments have fashioned an active economic role for themselves by sustaining mature industries, assisting with high-technology initiatives, and encouraging international commerce (see Eisinger, 1988). While local governments in general spend their budget on education, building roads, protecting citizens with police and fire services, providing health programs, hospitals, and welfare, and supplying utilities (from water and public transportations to gas and electric power) (see Figure 3), now hardly a month passes without some local government authorizing huge expenditures on behalf of a sports team on the grounds that it will aid the local economy (Lehne, 2006: 25-26).

Figure 3



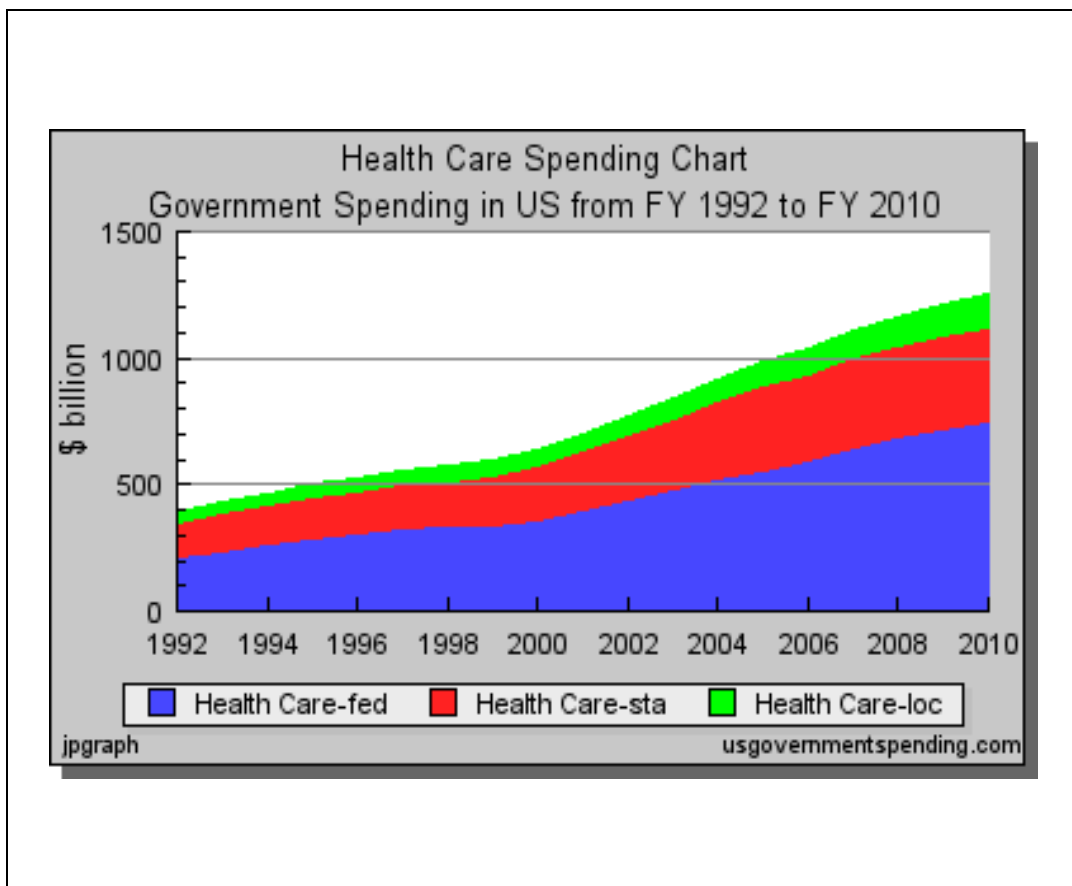
Source: Census of Governments, *State and Local Government Finances in 2000-2001*, <http://ftp2.census.gov/govs/estimate/01st1001.xls> (cited by Kettl and Fesler, 2005: 36)

Even though the industrial revolution in the United States had transformed the nation's social and economic patterns, numerous groups of people still want the government to preserve various elements of the old economic order. It is thus not surprising that the government has played a key role in protecting traditional sectors such as automobiles and steel, subsidizing new projects and industries such as biotechnology and the Internet, as well as adopting macroeconomic strategies that have a positive impact on specific industries like housing and real estate. The government also deals with a regulatory role in mitigating the undesirable consequences of market activity without losing the benefits of a competitive economy. Through its history, the U.S. government has responded with the enactment of creative statutes that regulated the most objectionable features of the new competition without halting its development. The government outlawed unfair market practices and regulated the operations of controversial industries. Antitrust laws were also used to prohibit monopolies, and regulations were utilized to impose government standards in sensitive areas where markets functioned poorly, such as workplace safety and the employment of children (see Asch and Seneca, 1989: chapter 3-5).

However, the regulatory role of the government is sometimes captured by groups that use government authority to produce the policy results they favor. Another economic role of government is, therefore, the distribution of wealth and income among people in a society. The United States now directs about half of its outlays to social service purposes, such as healthcare, retirement costs, and assistance to low-income groups (Figures 4 and 5 show government spending for healthcare and welfare since the past decade, which has increased every year and will tend to increase continuously in the future). This situation suggests not only an expansion role

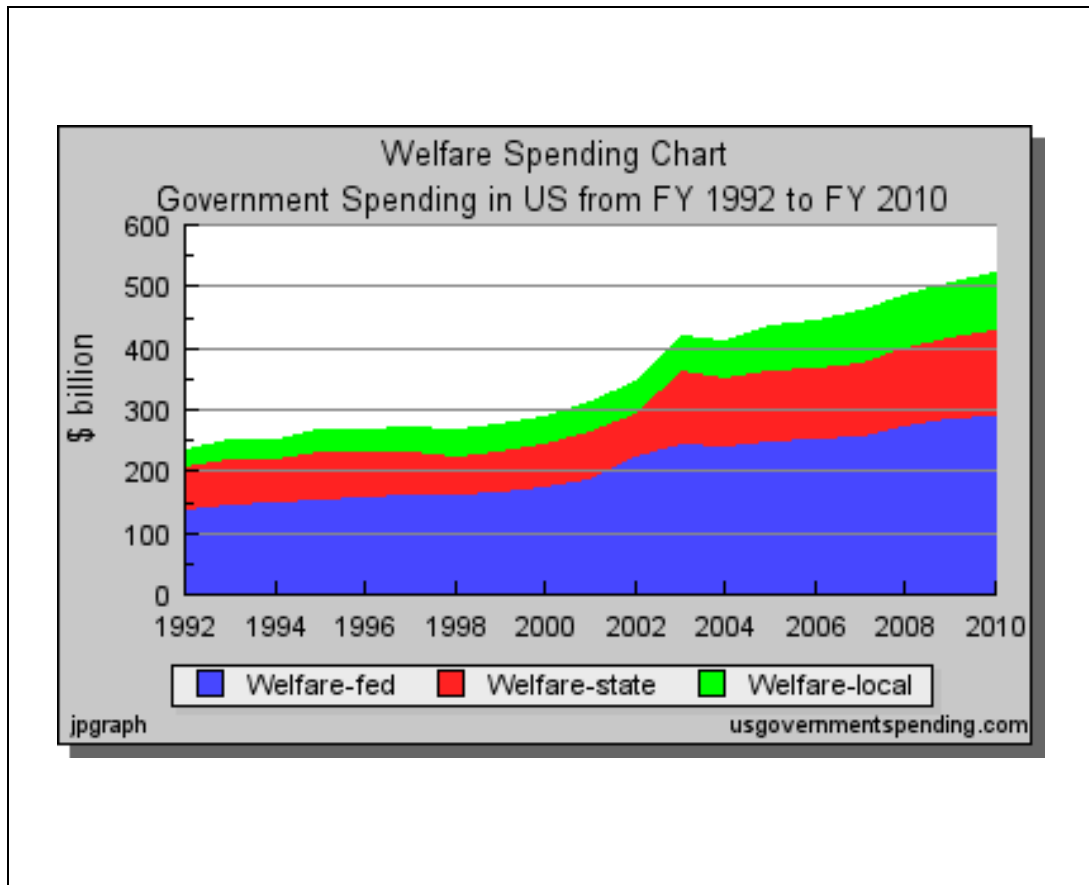
of the government, but also continuing debates about tax rates, healthcare, social security, and the plight of the disadvantaged that underline the centrality of social service issues regarding the responsibilities of modern governments.

Figure 4



Source: <http://www.usgovernmentspending.com>
 <http://www.usgovernmentspending.com/downchart_gs.php?year=1992_2010
 &view=1&expand=10&units=b&fy=fy09&chart=10fed_10state_10local&stack=1&size
 =m&title=Health%20Care%20Spending%20Chart&state=US>

Figure 5



Source: <http://www.usgovernmentspending.com>

<http://www.usgovernmentspending.com/downchart_gs.php?year=1992_2010&view=1&expand=40&units=b&fy=fy09&chart=40-fed_40-state_40local&stack=1&size=m&title=Welfare%20Spending%20Chart&state=US>

To conclude, the many trends in the previous discussion of what the government does and how it does it suggest, as Kettl and Fesler (2005: 45-46) indicate, three broad implications, including the following. One, the job of government varies by level. That is, local governments tend to concentrate on direct provision of goods and services. State governments also provide many goods and services

directly, but they also play a crucial intermediary role in the American federal system by transferring money to local governments. The federal government, by contrast, devotes most of its administrative energy to national defense and transfer function. Two, the job of the government varies according to function. The government provides goods and services, from education to national defense. The government is also involved in extensive action external to the bureaucracy, such as government-run shelters for those that cannot afford their own homes, and government-run kitchens for those that cannot afford food, and so forth. Three, the job of the government varies according to who finally provides the goods and services. Even services that formerly were offered directly by the government are now being provided instead through contracts, intergovernmental grants, tax expenditures, and loan programs. Just as in transfer programs, much of the administrative work is external to the governmental bureaucracy. That is, as government has grown bigger, and more and more of its growth has come about through providing more services but relying more on the government at other levels (state and/or local government) as well as on nongovernmental organizations (e.g. private companies) in producing them.

The Role of the Government in Economic Development: The Theoretical Debate

Becoming bigger does not necessarily mean becoming more intensive. Although its scope and function have expanded significantly during the past century, there has been a lively debate among scholars over the past decades regarding the proper role of the government in promoting economic development. On the one hand, scholars in the pro-market camp prefer to let the market function without interference, while the pro-state scholars strongly support necessary state intervention in economic development, on the other.

The idea that the government should have a limited role in the economy was developed by the classic capitalist theory of Adam Smith (1776), who provided a principle source of inspiration for free-market economists across the world. Relying on a capitalist perspective, Smith assumes that individuals and firms purchase the products that give them the greatest satisfaction for their money and that they purchase these goods in a perfectly competitive market. In *The Wealth of Nations* (2003 [1776]), he introduces the theory of the “invisible hand” of the market, through which the pursuit of individual self-interest unintentionally produces the collective good of the society. In Smith’s opinion, a government could never be knowledgeable enough or impartial enough to manage a country’s economy successfully. Because the state lacked these qualities, Smith argues that nonintervention by the state in economic matters was generally the wisest policy. This analytic tradition emphasized the advantages of freely-operating markets and praised the decentralized decisions that markets permitted. His viewpoint in particular opposed the prevailing sentiment that the government should direct a nation’s economic life, saying that there are only three duties that the government has in regard to its economy: 1) protection of individuals from coercion, 2) protection of individuals from injustice, and 3) providing public works such as roads, electricity, water supply, and so forth.

Even though some of the original ideas of Smith have been criticized as well as modified by more recent scholars, many of these ideas (e.g. a concept of ‘invisible hand’) are still powerful and widely used, particularly by neo-liberalist scholars. In *The Illusion of Choice: How the Market Economy Shapes Our Destiny*, Andrew Schmookler (1993) assesses the power of the market system in characterizing our society, and indicates that the market system has great influences that are scarcely visible to us. According to Schmookler, the market system has power even to shape the spiritual condition of the people that live in the market society.

Milton and Rose Friedman's (1980) *Free to Choose: A Personal Statement*, is another example of neo-liberalist perspective on the role of the government. Analyzing the role of competitive capitalism as a system of economic freedom and as a necessary condition for political freedom, the authors claim the power of the market, and prefer keeping the government in its place as people's servant and not letting it become people's master. However, according to them, the roles that should be assigned to the government are not only those three main duties suggested by Adam Smith, but also the duty to protect members of the community that cannot be regarded as "responsible" individuals (p. 32).

Thus, from the neo-liberalists' view, economic growth is a natural or inherent property of capitalist economies. Governments have an important role in only providing "public goods," such as physical infrastructure, law enforcement, macroeconomic stability, and perhaps education, which are difficult to arrange through private contracts.

Moreover, the impacts of government intervention on economic growth, for neo-liberalists, are negative rather than positive. As Anne Krueger (1974) indicates, government restrictions upon economic activity cause "rent seeking," the extraction of uncompensated value from others without making any contribution to productivity, which is held to occur often in several illegal forms (e.g. bribery, corruption, smuggling, and black markets). In a rent-seeking society, investment in productive activities is reduced, resources allocated by state policies are inefficient, and the economy under these conditions grows more slowly. The concept of rent seeking has been widely applied by political economic scholars such as Buchanan, Tollison, and Tullock (1980), Gallagher (1991), and Khan and Sundaram (2000), to indicate economic decline regarding the government's intervention in various areas around the world.

Furthermore, for some scholars such as Mancur Olson (1993), a small size and minimal role of the government in the economy lead to greater development. Seeking to explain the proper role of the government in economic development, in particular distinguishing levels of development that occur between dictatorships and democracies, Olson claims that stability is necessary for development. According to him, even though both dictatorships and democracies can bring about stability, a different size and role of the government in the economy between them cause a different level of development. That is, dictatorships tend to bring about larger, more involved state involvement, which results in limited development, while democracies bring about less involvement and a reduced role, which can lead to greater development. For this reason, Olson would say that the proper role of the government in stimulating economic development is just to provide the rules of the game and to enforce those rules appropriately in order for the market to function.

However, the necessity of government intervention in the economy, particularly when the country is facing a crisis, was introduced and is still being developed by such schools of thought as the Keynesians and the Neo-Keynesians. Writing during the Great Depression, Keynes suggests an obligatory role of the government in securing the reliable performance of the economy as a whole. He argues that in a slumping economy, where a decrease in aggregate demand leads businesses to cut back on production and lay off unneeded workers, an activist government should come in and work intensively to manage aggregate demand in order to achieve full employment. Thus, the major political contribution of Keynesian theory is its justification for government intervention in the economy (especially intervention to secure national economic prosperity).

One of the main reasons that have caused many scholars to accept the strong role of the government in promoting economic development is the government's political/economic power to carry out some activities that other organizations cannot do (or can do, but the government can do them better). Discussing the appropriate role of the government in economic development, Joseph Stiglitz (1989: 15) mentions that "the economic role of government is concern not just with the size of the government, but also with appropriate tasks for it to undertake." He suggests that there are both economic activities that are best carried out by the government and other activities in which the government should let market mechanisms work completely independently. In doing so, Stiglitz attempts to identify the differences between the state as an economic organization and other organizations. He then explains how these differences give rise to advantages and disadvantages. Arguably, the government has the power to tax, the power to proscribe, the power to punish, and some transaction cost advantages in correcting some market failures, while at the same time it also has bad characteristics—inefficiency, an excessively conservative view of administration, and red tape—which perhaps are obstacles to economic development. Thus, the role of the government in promoting economic development, in Stiglitz's view, requires a balance between private and state economics, as well as well-structured state economic activity.

According to Stiglitz, because efficient market allocations cannot be attained without government intervention, the proper economic role of the government is as follows: 1) the government should be wary both of exercising its monopoly power and granting monopoly rights (franchises); 2) the government should encourage competition within the public sector in order to create more incentives in investment and to increase coordination; 3) the economic functions of the government should be

decentralized to provide communities with an opportunity to obtain good public services at lower costs; and 4) the government has a responsibility to provide the requisite information and to lower costs to others in obtaining the information they might judge to be relevant. In this respect, efficient market allocations cannot be attained without government intervention.

In his *Structure and Change in Economic History*, Douglass North (1981) also indicates the necessity of government so that markets can function. North argues that a theory of institutions is needed in order to enlarge the neoclassic model, and the elements of this theory are: 1) a theory of property rights, for the incentives they create; 2) a theory of the state, as the unit that specifies and enforces property rights; and 3) a theory of ideology, which influences how individuals' perceptions are translated into action. According to these theories, the state is necessary for markets to function because the state is responsible for the efficiency of the property rights structure, which can bring about economic growth, stagnation, or decline. On the one hand, North agrees with neo-liberalists' argument that the state provides essential public goods in the form of law, justice, and defense. On the other hand, he claims in contrast that the state develops and enforces rules in order to maximize the wealth of the "ruler" (or, in other words, to maximize the monopoly rents of the group or class of which the ruler is the agent). However, because the ruler may be constrained by the transaction costs of tax collection, the ruler eventually introduce rules to lower such costs, thereby increasing efficiency and stimulating growth.

As he notes, "secular economic change has occurred not only because of the changing relative prices stressed in neoclassical models but also because of evolving ideological perspectives that have led individuals and groups to have contrasting views of the fairness of their situation and to act upon those views" (p.58).

According to North, we need a set of ideas that protects property rights, and it is the state, as a third party when facing a free rider problem, that can foster this. In short, people will invest when their property rights, which are provided by the state, are secure. As a result of people's investment, an economy finally will experience growth.

In addition, there is historical evidence showing that it is the role of the government that affects economic development or decline. For example, in *Economic Backwardness in Historical Perspective*, Alexander Gerschenkron (1962) argues that the government intervenes in economics because it is necessary for both economic and political reasons. Citing the historical case of Russian industrialization in the eighties and the nineties of the past century, Gerschenkron indicates that economic development is the result of the appropriate role of the government. For example, he writes, "through multifarious devices such as preferential orders to domestic producers of railroad materials, high prices, subsidies, credits, and profit guaranties to new industrial enterprises, the government succeeded in maintaining a high and, in fact, increasing rate of growth until the end of century" (p.19). In addition, an attempt to create guilds by government fiat, in the case of Russia, illustrates that the government's policies of industrialization also had to function as a substitute for the missing prerequisite of the craft-guild experience. Hence, according to Gerschenkron, the state becomes involved as much as possible in capitalist industries is needed, particularly in more backward societies.

An economic rapid-growth experience in East Asian countries also suggests the necessity of government intervention in economic development. Reviewing three articles that focus on economic success in East Asia, Robert Wade (1992) argues that economic growth in those countries is not a result of the limited role of the government in promoting economic development, as many neoliberals suggest.

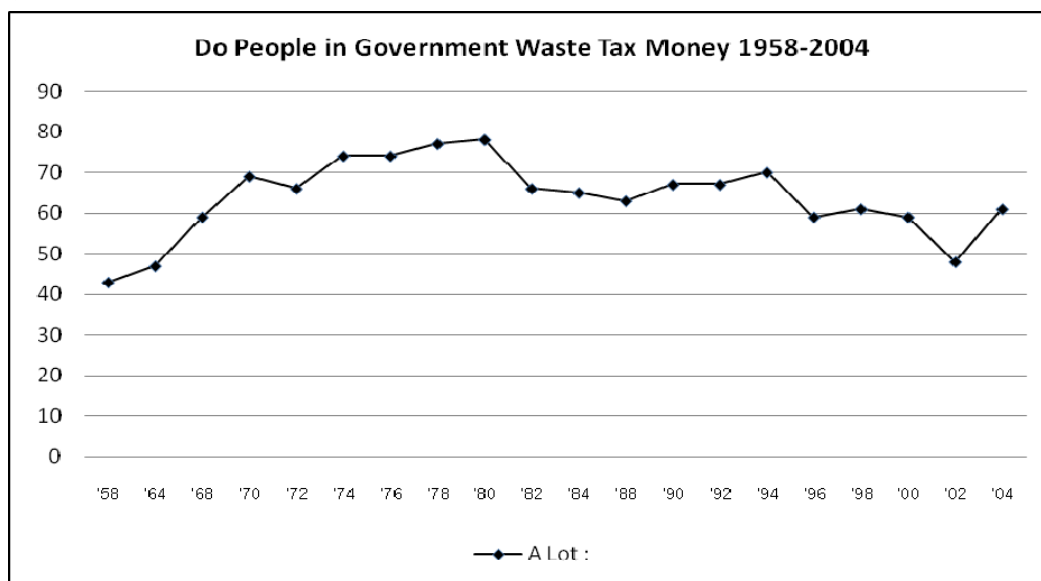
Moreover, there is evidence proving that “government intervention” is the key to the success of rapid economic growth in East Asia (particularly, the case of South Korea in Alice Amsden’s article). For example, the Korean government has acted beyond what neoliberals have suggested is the proper role of the state in maintaining economic growth in several ways: acting as an entrepreneur, banker, and shaper of the industrial structure; distorting the price structure by subsidies, protection, price controls, restrictions on incoming and outgoing movement of finance and direct investment, and so on. In addition, learning from an interpretation by Stephan Haggard of East Asian success and Latin American failure, Wade indicates that economic success in East Asian countries is a result of their political stability, in which several factors—international pressure to policy reform, the strength of different social groups, and a military regime that has enjoyed great autonomy in the decision-making process – are existed. In contrast, the “external shocks,” unbalance in social force, and class structure that have caused unstable governments are the main reasons for economic failure in Latin American countries.

Concluding Remarks and Suggestions

Americans may feel that it is best to let things work out “naturally” without the constraints or demands of an artificially-imposed state (Stillman II, 1990: 166), in that an unregulated market would provide substantial economic benefits. However, in today’s complex world, in which the government unquestionably has gotten bigger, what the government does and how the government should do have become expanded and more complicated. When pollsters asked, “Do people in the government waste a lot of tax money?,” the response has gone from 43 percent in 1958 to 78 percent in 1980, back down to 48 percent in 2002, and increased again to 61 percent in 2004 (Figure 6).

However, despite the ups and downs of public confidence in the role of the government, public demand for government services since the late 1990s has steadily risen. Approximately 30 percent of Americans in 1992 believed that the “government should provide more services and increase spending,” and the number of responses to the same question increased to 40, 39, and 43 in 1998, 2000, and 2004, respectively (Figure 7). We can say that people nowadays expect the government not only to be responsible and accountable to the public but also to do various tasks, covering many policy issues, both domestically and internationally, including enforcing laws, protecting natural resources, purchasing goods and services, and providing for national defense.

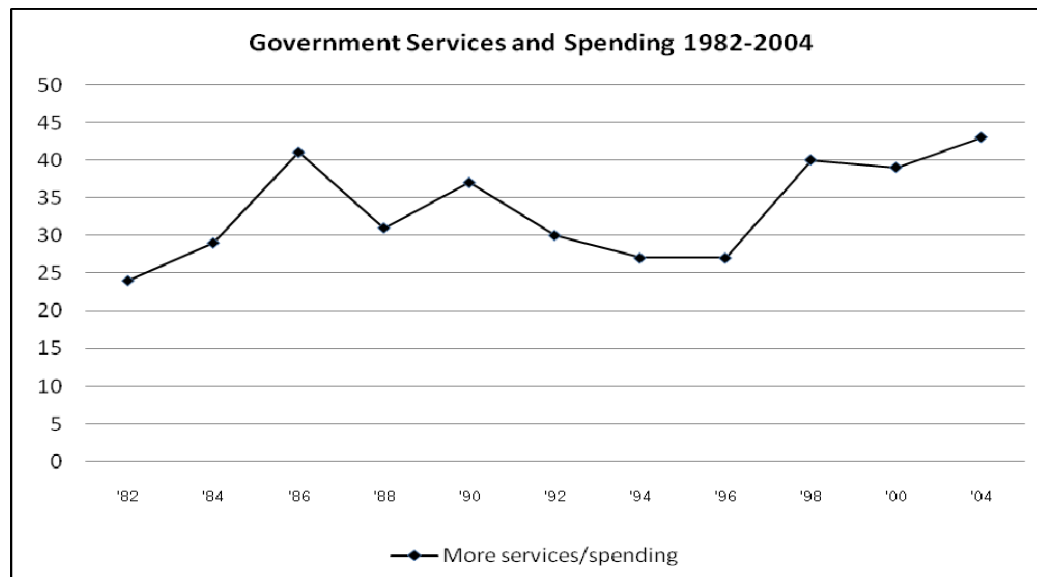
Figure 6



Source: American National Election Studies.

(http://www.electionstudies.org/nsguide/toptable/tab5a_3.htm)

Figure 7



Source: American National Election Studies.

(http://www.electionstudies.org/nescuide/toptable/tab4a_5.htm)

For most political economy and political science scholars (even those whose a limited role of the government is adequate for economic development), the government should do something that benefits its country's economy (e.g. providing public goods, ruling and enforcing "the rules of the game," and so on), but in what "size" and how the government should become involved in its country's economy are still debatable. In order to survive in today's world market, which is complicated and highly competitive, the authors somewhat agree with "strong state" preferences, particularly states that have various capacities, as suggested by North and Wade. That is, first, the government's role is important in specifying and enforcing property rights as well as in shaping individual and group incentives for economic activity (North 1981). As he illustrates in his exploration of Western economic history, from the origins of agriculture to the twentieth century, the production of inefficient property rights on

the part of the government results in failure to sustain economic growth (North, 1981). The role of the government is thus needed, especially to establish the cooperative and competitive relationships which constitute a society and more specifically economic order. Additionally, while several forms of intervention, such as protection and selective industrial promotion, have been corroborated by many scholars (Amsden, 1989; Haggard, 1986; and Hughes, 1988) as appropriate roles for governments, a government could intervene without inviting rent-seeking (Wade, 1992). The essential task of the government is to provide its economy with an efficient allocation of resources.

In addition to protecting property rights, providing society with the rule of law, and avoiding corruption, the proper role of government in economic development is to strengthen individuals' capacity and ability to access social and economic arrangements (e.g. facilities for education and healthcare), as well as political and civil rights (e.g. the liberty to participate in public discussion and scrutiny). In order to bring about the development of a country, the removal of major sources of *unfreedom* (poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over-activity of a repressive state) is required (Sen, 1999)—and the best player that can take care of this task is the government.

As mentioned earlier, we the people need an excellent government to deal with the complexity of recently global problems, as well as an accountable government that cares about our well-being while it does not ignore our rights. Concerning how the government can play such a proper role, the authors agree with Mark Blyth (2002), who argues that it is not institutions but ideas that reduce uncertainty. As he suggested

regarding the case of the United States during the 1930s, for instance, the economic crises could not be institutionally resolved until agents on the ground had some “idea” as to what the causes of the crises were. For Blyth, ideas are used as weapons and as institutional blueprints to affect institutional change. It is ideas that influence interests and shape and/or change political and economic outcomes. For this reason, we still need a government, especially a government that has some ideas about how to organize the political and economic systems and knows how to use such ideas to understand moments of economic uncertainty and to construct institutional solutions to the crises such moments engender. With the institutions constructed from those ideas that reduce uncertainty and act as institutional blueprints, the government could produce market stability (which may lead to economic growth). An appropriate role of the government in stimulating economic development therefore is not what role the government is willing to play in the economy in order to serve its own interest, but depends on what the public interest and society’s needs and desires are.

Even though our arguments as described above intend to go along with the significant involvement of the government in the economy, it would be a mistake to associate “pure” forms of a pro-market or pro-state with a single era or a specific government. As we have learned from the experience of the U.S., the government picks and chooses among its alternative functions (which consist of ideas from both pro-market and pro-state camps) in order to fashion a mixture of activities that the government thinks will correspond to society’s needs and traditions. These might not be the best answers for the appropriate role of the government regarding questions of economic development. Proponents of the pro-market strategies of weak government, low taxes, and minimal spending may leave a country vulnerable during periods of national economic distress, while advocates of strong government may limit to buck

powerful national economic trends (Brace, 1993). Thus, the most acceptable idea, in our view, would be to draw from a compromise position, in which the government should retain its limited role in normal situations yet take intensive action during crises. By carefully learning from its experiences, both successes and failures, and focusing its attention not on its own interests but on the public's needs and society's traditions, the government might accomplish its challenging tasks in dealing with economic problems.

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