

Does government  
intervention help  
promote economic  
stability and growth?  
essay sa...

[Economics](#)



Economic stability I will define as a phase of steady control for an economy. Growth is a rise in the productive capacity of an economy. Steady growth is arguably the main over-arching economic objective when looking at macroeconomics. Government intervention is defined by actions on the part of government that affect any economic activity.

The question has implications; in a modern context a society without state intervention is almost non-existent. I wish to explore whether it is useful and if so to what extent. Because the basic economic problem in deciding how to allocate scarce resources affects all economies, some vastly different approaches and perspectives have formed in order to find a solution. The question is highly contentious and has no definitive answer. Each perspective has its own advantages and disadvantages.

The first perspective is often classed as a 'mixed economy' approach, which encompasses state capitalism and other similar systems. There are different types of mixed economies. China and Russia are both advocates of state capitalism - a form of capitalism that relies on the intervention of the state to boost and support certain industries. Over the past three decades, China's GDP has grown at an average rate of "9.5%" according to the Economist in a special report. (1) Not only is it successful on a macroeconomic scale, it can also show success on a microeconomic scale: three Chinese state owned companies rank among the world's ten biggest companies by revenue, and the top 129 Chinese state owned enterprises in 2010 had net profits of \$151 billion, according to the same report. It is also argued that it makes it "easier for emerging countries to learn from the rest of the world." This

system does also have issues, Josh Lerner, a professor at Harvard Business  
<https://assignbuster.com/does-government-intervention-help-promote-economic-stability-and-growth-essay-sample/>

School, describes state-sponsored innovation as a “boulevard of broken dreams.” This is due to the problems with productivity and innovation within state owned enterprises and the general support of the state.

As a source Mr. Lerner is both credible and unreliable, Harvard business school is ranked amongst the top business universities by many which gives him a reputation, at Harvard Mr. Lerner would have easier access to information and this makes him reliable, however, he may have a vested interest in opposing state capitalism because his US roots. As a capitalist country it would be expected that he'd oppose other systems. This is less likely amongst prestigious liberal universities like Harvard where differences in academic opinion are welcomed. Government intervention particularly in state capitalism can lead to extremely competitive and contestable markets. It can result in private companies simply not being able to compete with state owned companies, as the Economist puts it: “China's ability to make huge strategic investments, [...] puts private companies at a severe disadvantage.”

Because there is typically less internal regulation in state owned company's, productivity is often lower, consumer satisfaction is less valued therefore risks to improve are rarer. Even in more capitalist economies if firms are bailed out and cushioned with state support then unsafe risks become more frequent. This has dire effects, as illustrated by the recent global recession in which credit was unwisely traded, which stunted growth and made the global economy volatile. State capitalism seems to promote economic stability, and

propel growth, but keep the economy too stable by choking innovation and productivity, and propelling growth too far to create monopolies.

The Economist as a source is generally reliable, however it must be noted that its alignment is against state capitalism; they are advocates of economic liberalism. According to a former editor Bill Emmot “ the Economist’s philosophy has always been liberal, not conservative,” (2). As a generally balanced paper they have well-documented and supported counter arguments, which makes more credible. They have a reputation for their strong minded but fair and well-researched articles that they would be keen to maintain, coupled with their extensive resources and contacts, which gives the paper easier access to information. They are a credible source.

The second perspective is one of pure capitalism, supported by very few. Adam Smith was a key proponent of the free-market system in the 1700s; he states that the individual is “ led by an invisible hand to promote an end which was no part of his [selfish] intention.” (3) He discusses how it is more beneficial to society that our intentions are self-centred: “ By pursuing his [the individual’s] own interest he frequently promotes that of the society more effectually than when he really intends to promote it.” Past economies are some of the only truly capitalist societies in the world; in nearly all-modern capitalist societies there is at least minimal regulation. The growth rates of England in the 1700s were extremely high and the economy was very stable. However, there was unknown and unrecognised poverty in England prior to the 1800s, which makes his statements about the welfare of society less credible.

A problem with pure capitalism is that income is unjustly distributed to be more in favour of the middle class. John Maynard Keynes notes the unjust nature of profiteering, " To convert the business man into the profiteer is to strike a blow at capitalism." He further explains that this is due to the lack of positive input profiteers have on society " The business man is only tolerable so long as his gains can be held to bear some relation to what, roughly and in some sense, his activities have contributed to society." (4) Keynes was a key proponent of Interventionism and is one of the most respected and well-known economists of all time, and is particularly renowned for his work in the field of macroeconomics.

The Guardian supports this by claiming that " much business is now seen as no more than profiteering." (4) Because the nature of pure capitalism is unequal, the gap between the poor and the rich is substantial. However this ordinarily would not mean GDP was low or the economy was volatile. In the same article the guardian mentions the impact this inequality has on society. "[Inequality] has corrosive effects: unequal societies are unhappier, less healthy, and have more crime." Higher crime levels and unhappiness undoubtedly harms both the growth and stability of the economy. The Guardian is generally centre-left wing, this would mean that they may be expected to be critical of capitalist societies and favour political and economic systems that promote welfare over ones that promote economic stability and growth. They are generally, however, considered to be a more neutral paper. Although they may be credible in their research and the balancing of their arguments, their political orientation weakens their reliability significantly.

<https://assignbuster.com/does-government-intervention-help-promote-economic-stability-and-growth-essay-sample/>

The Daily Mail comes to a similar conclusion regarding capitalism, when discussing the materialism of the last decade; they state in an article that “ Nowhere was this selfishness more pronounced than at capitalism’s epicentre.” (5) The Daily Mail is a right-wing paper. This makes their statement more reliable, as it is contrary to a pro-capitalist view that they would be expected to advocate.

The final perspective is one of total Government intervention; put into practice by the USSR and China in the mid 20th century. Russia and China’s application of communism had very different effects on economic growth and stability. The main criticism of communism is that it lends itself to corruption, due to the enormous amount of concentrated power it offers. It allows a “ murderous dictator” such as Stalin the chance to implement a “ regime of terror.” (5) The growth rates were enormous during Lenin and Stalin’s rule, and the economy was catapulted into industry. The economy was stable and Russia became a serious global competitor at the cost of the welfare of millions. China’s implementation of communism was less successful; although there was a rise in GDP it wasn’t until later that the economy really excelled. “ It was not until the post-Mao period, and the end of the political instability of the Cultural revolution, that the economy really took off.” (7) This was arguably due to the odd disposition of Mao, and his attack on China’s culture. Mao’s China also saw the death of countless people and poor welfare across the country.

The reason the models differ could be due to historical and cultural factors rather than economic. The economies compared are from completely

different contexts and cultures, consequently comparing them may hold little relevance.

Despite the difficulties in hindering productivity and innovation, I contend that a mixed economy promotes economic growth and stability the most, whilst still supporting welfare. I also contend that without regard for welfare, it is indisputable that full government control promotes economic stability and growth the most effectively, but its impact on welfare is so horrifying that it is not a realistic and practical solution. There are recognisable limitations to my conclusion; because of the complexity and variation within interventionism and capitalism I cannot appropriately reach a conclusion, as I haven't considered all models of capitalism and various economies. More research would be required to appropriately address the question.

#### References:

(1)The Economist, Special Report ' State Capitalism,' taken from the January 21st 2012 issue. (2)The Guardian newspaper, from the article ' Time for a referendum on the Monarchy,' published on December 8th 2000, last time the site was visited was on the 12th of April, <http://www.guardian.co.uk/uk/2000/dec/08/monarchy.comment> (3)Adam Smith's book called ' The Wealth of Nations, published in 1776, on page 264. (4)The Guardian newspaper, from the article ' The Case for Moral Capitalism,' published on the 25th December 2011, last time the site was visited was on the 12th of April, <http://www.guardian.co.uk/commentisfree/2011/dec/25/a-capitalist-revolution> (5)The Daily Mail newspaper, from the article 'Immoral Capitalism,' dealt a blow.' Published on the 21st November 2008, last time <https://assignbuster.com/does-government-intervention-help-promote-economic-stability-and-growth-essay-sample/>

the site was visited was on the 14th of April, [http://www.dailymail.co.](http://www.dailymail.co.uk/money/markets/article-1647804/Immoral-capitalism-dealt-a-blow.html)

[uk/money/markets/article-1647804/Immoral-capitalism-dealt-a-blow.html](http://www.dailymail.co.uk/money/markets/article-1647804/Immoral-capitalism-dealt-a-blow.html)

(6)The British Broadcasting Company, from the information page ' Joseph

Stalin,' last visited on the 14th of April, [http://www.bbc.co.](http://www.bbc.co.uk/history/historic_figures/stalin_joseph.shtml)

[uk/history/historic\\_figures/stalin\\_joseph.shtml](http://www.bbc.co.uk/history/historic_figures/stalin_joseph.shtml) (7)The British Broadcasting

Company, from the article ' the economy's long march, ' last visited on the

14th of April, [http://news.bbc.co.](http://news.bbc.co.uk/1/hi/special_report/1999/09/99/china_50_years_of_communism/453330.stm)

[uk/1/hi/special\\_report/1999/09/99/china\\_50\\_years\\_of\\_communism/453330.](http://news.bbc.co.uk/1/hi/special_report/1999/09/99/china_50_years_of_communism/453330.stm)

[stm](http://news.bbc.co.uk/1/hi/special_report/1999/09/99/china_50_years_of_communism/453330.stm)