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THE CYCLICAL PATTERN OF STATE INTERVENTION

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Bureaucratic organizations have a long term tendency to grow. Thus the state, as the largest and most important bureaucratic organization, will tend to grow in the long run. This tendency, however, should be not exaggerated, nor made linear. The state tends to grow absolutely, as societies become richer and more complex, but it does not necessarily tend to grow relatively. The share of public expenditures or the share of the state controlled production of goods and services in the GDP may increase, but moderately and, as I will propose in this paper, in a cyclical and changing way.

There are economic and political limits to the growth of the state. The relations between the state and civil society, or between the state and the market are not arbitrary. A state that grows too much in relation to civil society may cause economic and political problems that, sooner or later, will limit the expansion of the state. In this paper I will suggest that the state grows cyclically. I will propose that, in the same way as, in the strictly economic realm, there are the business cycles and the Kondratieff cycles and, in the private/public interest alternative, there is the Hirschman cycle, in the economic-political realm there are "the cycles of state intervention".

The relative size of the state, the intensity and the effectiveness of State intervention expands and contracts cyclically. In each new cycle the pattern of intervention changes. During the expansion phase state intervention increases, the state assumes an increasing role in coordinating the economic system, in the allocation of resources, in managing aggregate demand and supply, in influencing the distribution of income among social classes and among sectors of the economy. Initially this expansion is intense because it the state is being successful, because it is supplementing efficiently the role of the market. The state grows because it responds to real demands of society.

But sooner or later the intervention will tend to become disfunctional. Excess regulation, creating obstacles to the well functioning of the market, and public deficits are the typical symptoms that intervention went too far. This is the moment when the cycle reverts, when state control contracts and market control expands. It is the time for liberalization, deregulation and privatization.

The present historical process of a relative reduction of the economic role of the state, initiated in the mid-1970s must be viewed as a phase of the cyclical pattern of state intervention. The slow-down of the capitalist economies, that since then takes place, is in part consequence of the distortions and inefficiencies provoked by the previous growth of the state. As these distortions were perceived by society, they gave rise to strong conservative or neo-liberal wave. State failures are made responsible of all problems, market failures were demised, the objective is the minimal state. The proposed instruments are trade liberalization, privatization and regulation, are the market-oriented reforms.

Yet, there is no reason to identify market-oriented reforms with neo-liberalism, nor should we identify market orientation with market coordination. Japan and the Asian "tigers" are market-oriented economies, but not particularly market-coordinated.[1] Reforms liberalizing trade, privatizing, deregulating may just be sensible economic policy, provided that they do not aim the minimal state, do not disregard market failures, do not ignore the potentialities of collective action. If the pattern of state intervention is cyclical, it tends to change. In each cycle or historical moment, the form it will assume will be different. After liberalization and privatization, the state will perform new roles, institutionalizing markets, investing in the infrastructure and in education, stimulating science and technology, protecting the environment, promoting welfare.

Although Polanyi (1944) was probably correct when he said that a self-regulating market system was an exceptional moment in the history of mankind, the opposite idea of a successful state-controlled economy may live for a very short period. Actually, mixed situations, combining market and state coordination, are the long term and general rule. As modern economies become more and more complex, the need for coordination by the market and by the state is bigger and bigger. In order to perform its role smoothly and efficiently the market must be regulated and complemented by the state. But, whereas market coordination is supposed to be self-regulating, state coordination is not. In theory, the market automatically regulates the economy, whereas the coordination performed by the state is dependent on design. But, given market failures and the intrinsic limitation of state coordination, new coordinating challenges appear everyday for the state. State intervention, however, also implies increasing, sooner or later, failures. Old forms of state intervention must be eliminated and new ones, introduced. Often this process is lagging, only taking place after economic and fiscal crisis breaks-up. As a result, what we see is a cyclical and ever changing pattern of expansion and contraction of state intervention.

1. The Optimum Degree of State Intervention

The classical economists who founded our science understood the impossibility of a radical separation between the market and the state very well. That is why they called our science Political Economy and not Economics[2]. Political Economy is the science that studies

[1] - On the subject, see Bresser-Pereira (1989 and 1992).
[2] - *Political economy* is the original name of *economics.* It was abandoned when the neoclassical economists decides "to purge economics from politics and ideology". The tradition, however, was maintained by Marxists, Keynesians and structuralists. More recently, it has appeared in the universities of the advanced countries, generally outside the departments of economics, in a field called *political economy*, or, contradictorily, *political economics (*see Alt and Chrystal, 1983, a mixture of survey and text book on the subject).

the wealth of nations, that examines production and distribution in a market which obeys the law of value but is regulated and warranted by the state. There is no production, much less distribution, without power: private power and political power are permanently present in the market. As Altvater reminds us, the existence of capital depends on the existence of the state (1972).

It is significant, however, that a basic criterion that is commonly used to distinguish conservative economists from progressive ones is the role they attribute to state intervention in the economic coordination of the capitalist system. The former are in principle against, and the latter in favor, of some degree of state intervention. Conservatives are against state intervention primarily because they fear socialism.[3] Radicals traditionally favor it because they believe the nationalization of large corporations is the road to socialism. For a long time, socialist or social-democratic parties supported nationalizations in name of the way to socialism. In Britain, with the Labor Party after Word War II, and more recently in France with the Socialist Party, a nationalization process took place. More recently, however, it is becoming increasingly clear that nationalizations are not an essential part of a socialist agenda. The left generally favors limited state intervention, but sometimes may well favor privatization and de-regulation, because it accepts that the creation of state-owned enterprises and regulation may have gone too far. It does not accept the neoliberal thesis of the minimal state, but has abandoned altogether the old idea that nationalization is the road to socialism.

If the neoliberal and statist rhetoric are definitely ideological, this does not mean that the solution is simply to opt for an intermediate alternative. Alec Nove also does not believe in this kind of solution to the problem. He observes that "the vision of perfect competition and perfect markets, as well as `full communism', are... inherently unrealistic" (1978: 237). Yet this does not mean that solution is to be "in the middle", between pure capitalism and pure statism or technobureaucratism. Such an intermediate alternative is obvious but does not give any real indication of the ideal level of state intervention. In another text Nove underlines:

> It would be nice to imagine the waste inherent in a competitive market and the waste caused by centralized 'Stalinist' planning could both be eliminated. No one has yet found such optimum (1977: 157).

My proposal is not to determine the localization of such an intermediary optimum between market and state control of the economy - an optimum that does not exist. In every stage of the growth of a country, and at every moment of the cyclical development of the state, there is a spectrum of efficient combinations of market and state coordination of the economy. Today it may be assumed that the centralized state controlled systems in the Soviet Union and in China are inefficient. This is the system that the Chinese and Gorbachev are trying to reform. But we know that these countries experienced high rates of economic development in their first stage of industrialization, that, in the case of the Soviet Union, lasted for a long time.

[3] - Note that not all conservatives are for *laissez-faire* even in theory. Many "old" conservatives, following Edmund Burke, favour state intervention to preserve tradition and family. In practice, they will support state intervention wherever it promotes accumulation and stabilizes the economy.

On the other hand, it is important not to confuse the statist social formations with contemporary capitalism where the welfare state was established, generally, but not necessarily, under the sponsorship of social-democratic governments. State intervention in the welfare state has been mostly successful. According to research conducted with extreme methodological rigor by Kurt Rothschild (1986) between 1960 and 1984 in the advanced European economies, the rate of economic growth tended to be higher and the rate of unemployment lower when countries were governed by left-wing (social-democratic) parties or coalitions of parties, that favored a higher degree of state intervention. Although statistically demonstrated, this superiority has not been stable over time: in some periods it is clear, in others not so clear. Actually, although reasoning or historical experience support a middle-of-the-road strategy, they cannot tell us "how much" state intervention should be used.

2. The Basic Hypothesis

Thus, rather than falling into an endless discussion about a doubtful optimum, I propose that there is a cyclical, ever-changing pattern of state intervention. If I am minimally successful in demonstrating this hypothesis, I hope that the ideological content of the debate on the economic intervention of the state will in some way be reduced.

My basic contention is that state intervention expands and contracts cyclically, and that, in each new cycle the mode of state intervention changes. For a while, state intervention increases, the state assumes an increasing role in the coordination of the economic system, in the micro-allocation of resources, in the macro- definition of the level of savings and investments (or of the equilibrium between aggregate demand and supply), and in the micro-macro determination of income distribution among social classes and among sectors of the economy. It increases because it is being successful, because the state is performing a role that the market is unable or inefficient in performing. It is increasing because it responds in a fairly effective way to the demands of society.

But as state intervention increases, be it in terms of its share in GDP, or in terms of the degree of regulation the economy is submitted to, intervention starts to become disfunctional. The two basic symptoms indicating that the expansion of the state went too far are excess regulation, that hinders rather than stimulates and guides economic activity, and huge public deficits in place of forced savings. This is the moment when the cycle reverts, when the state control contracts and market control expands. It is the time for some de-regulation and denationalization.

This hypothesis of the cyclical nature of state intervention conflicts both with the static theories, that assume a given level of state intervention as ideal, and with the historical theories that claim a long term tendency toward the nationalization of the economy. For the neoliberals, the ideal level of state intervention is very low, for the statists, very high, and for the pragmatists, intermediary. Although closer to the pragmatists (Bresser-Pereira 1989), I would say that these three positions are unacceptable as long as they assume a given relation between market and state control as ideal or optimum. My hypothesis is that this ideal relation will necessarily vary historically and according to a cyclical pattern of state intervention.

3. The Growth of the State

Although a historical tendency can be traced that shows increasing state intervention, I propose that this tendency is limited and not linear. It was implicit in Marx and explicitly developed by Adolph Wagner (1893), according to whom, as per capita income increases nations will spend a larger part of their national product through government. Wagner presented several reasons for that increase (see Wildavsky, 1985): additional complexity of legal relationships introduced by the increased specialization and division of Labor, an increase in social friction due to an increasing density of urban areas, insufficiency of private savings for investments requiring large sums of capital, increasing demand (income-elasticity in excess of one) for investments in the production of certain goods whose benefits can not be strictly appropriated to the private investor (public goods in modern terminology), and the need to regulate private monopolies.

Marxist economists explain state growth as a counter-tendency to the law of the falling rate of profit. The state nationalizes the low profit industries in order to assure a satisfactory average rate of profit for the private sector. Keynesians emphasize the need for state regulation to complement the market's regulating function and the insufficiency of demand problem. Social-democrats underline the welfare, income-distributing function of the state.

The conservative public choice theory explains the growth of the state in terms of the demands of special interest groups. Mueller and Murrell, who are adherents of this school, underlined that the assumption behind Wagner's law is that the income elasticity of a nation's demand for public goods exceeds the income elasticity of its demand for private goods. This leads to state growth because "the formation of bargains between parties and interest groups lead to an increase in government size" (1985: 31). Mueller (1987) enumerates five basic explanations for state growth: the demand of public goods, distribution of income, inducement of interest groups, interests of the state bureaucracy, fiscal illusion about the true size of the state.

I would say that all these reasons or explanations are compelling. The statistical evidence supporting Wagner's thesis is overwhelming. Borcherding, for instance, found that in the United States government expenditures (federal, state and local) increased from 7.7 to 21.4 per cent of GNP from 1902 to 1933, decreased to 20.4 per cent of GNP up to 1940; and then increased steadily, reaching 35 per cent of GNP in 1978 (1985: 361). In Germany, total public expenditure as a proportion of GDP increased steadily from 15.7 to 42.5 per cent of GDP from 1913 to 1969 (see Mandel, 1972: 488). In the OECD countries, general government expenditures as a percentage of GDP increased from 26.3 per cent (unweighted average) in 1960 to 47.0 per cent in 1982 (Saunders and Klau, 1985).

But neither the theoretical arguments nor the empirical evidence can be taken as definitive. Wagner wrote his work in Germany at the end of last century when the state assumed a decisive role in the late industrialization there. However, after its industrial take off, German state intervention, following a pattern similar to other late comers in the process of industrialization, tended to diminish in the productive and financial areas while increased in regulatory and welfare matters.

4. A Historical View

This cyclical pattern of expansion and contraction of state intervention can be seen in a broad historical perspective and can also be examined from the stand-point of the changing economic role of the state. In each cycle new modes of state intervention are introduced. The state expands and contracts, but in doing so it also continuously changes the forms of its intervention.

From a broad historical perspective, taking Britain, France and United States (the first industrial countries) as references, in the first stage of capitalism - the mercantilist period - the state strongly intervened to support the process of primitive accumulation is very strong. The distortions provoked by the excessive regulations and by the royal monopolies gave rise to the criticism of the classical economists and, during and after the Industrial Revolution, to a sharp reduction in state intervention. Competitive capitalism reigned during the nineteenth century, but around 1870 the growth of the big corporations and of the big unions were the signs that a new phase - that of monopoly capitalism, where state intervention was again required - would soon start. The capitalist political system resists state intervention, but finally it started to increase again at the beginning of the twentieth century.

It was only after the great depression of the thirties and the revolutionary criticism of Keynes to neoclassical liberalism that a more clear cut and deliberate process of state intervention evolved. This was the great moment of the welfare state and of Keynesian macroeconomics. The prosperity of the 1950s and 1960s, a true Golden Age of economic performance, to use the expression coined by Glyn, Hughes, Lipietz and Singh (1988), was accompanied by increasing state intervention - and also by mounting social demands from the workers. In Europe, transfer payments and households subsidies rose from around 8 per cent of GDP in l955-57 to around 16 per cent by mid the 1970s (Glyn et al., 1988: 23).

In the 1970s, however, the world economy faced a new long term slow down. This crisis may be defined, in economic terms, by large public deficits, by the generalized reduction of the growth rates and by stagflation; and in ideological terms, by the end of the Keynesian consensus and the rise of neoliberal - monetarist, rational expectation, public choice - theories. Denationalization, de-regulation and market control were the new tenets of the conservative wave. State intervention ceased increasing and there were some signals that it was slowly being reduced. The cyclical contraction of the state, however, is much less accentuated than its previous expansion was.[4]

5. Economic Long Cycles and Political Cycles

This cyclical process of expansion and contraction of the state can probably be examined in another dimension, using the long Kondratieff cycles or the long waves

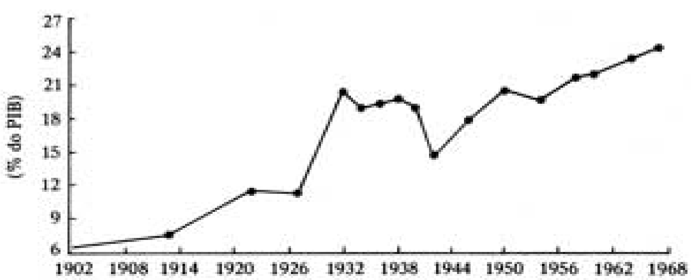
[4] - In Britain, where the process of de-regulation and denationalization received full support from the conservative government of Margareth Thatcher, the reduction of state intervention was eventually much smaller than initially intended.

approach.[5] The hypothesis is that in the expansion phases of the long cycles, state intervention would increase, while in the contraction ones, it would be reduced. This was precisely what happened in the last long cycle: from 1940/45 to 1970, state intervention increased, and since then - or, rather, with a delay of around a decade - it has slowly been being reduced.

Starting with this hypothesis, clearly supported by evidence from the present long wave, I went on a look for further confirmation in the previous long cycle. If the same pattern was observed, state intervention should have increased between approximately 1895 and 1920, and then decreased or relatively decelerated until 1940. Wallis' data on the percentage of non-military expenditure in GNP in the United States (Figure 5.1) show that, with a certain lag, this was precisely what happened (1984)[6]. This percentage increased steadily up to 1932, then declined up to 1943 and finally resumed growth up to 1968, the last year examined. In France, the correlation between the Kondratieff cycles and public expenditures is again quite clear, but the same delay cannot be observed. According to data of Delorme and André (1983: 723), the percentage of total state expenditures in the GDP increased from the beginning of the century until 1922 then declined until 1934, increased sharply up to 1969; and the next year begins a moderate decline up to 1974, the last year examined.

When he, examined the Kondratieff cycles, David Gordon identified them with "stages of accumulation", that would be characterized by "a full set of integrated institutions... necessary for individual capitalist accumulation to continue.... The institutional integrity of a stage of accumulation will begin to dissolve after a period of prosperity" (1978: 27-28). If we accept that among these institutions, a major, and dominating one is the state, it is not difficult to establish the relation between the long cycles and changes in the pattern and intensity of state intervention.

Figure 5.1 U.S. Government Non-Military Expenditures (% Of Gnp)



Source: Wallis (1984).

Thus, the proposal of the existence of cycles of state intervention may be directly related to the long cycles analysis. Another relation that can be made it to the political and

[5] - The evidence in favour of the Kondratieff Cycles is very strong. The recent literature on the subject is extensive. See Ernest Mandel (1980), Frisch and Gahlen, eds. (1984), Tibor Vasko, ed. (1985), Di Matteo, Goodwin and Vercelli, eds. (1986), Solomos Solomou (1987), A. Kleinknecht (1987), Joshua Goldstein (1988), David Gordon (1989). I examined the subject in *Lucro, Acumulaçåo e Crise* (1986: ch.12).
[6] - Joseph J. Wallis' data are based on the survey undertaken by the U.S. Department of Commerce, *Historical Statistics on Government Finance and Employment* (Washington, D.C., 1969).

historical and political cycles proposed respectively by Albert Hirschman and by the two Schlesinger, Senior and Junior.

Hirschman, in a extraordinary book, *Shifting Involvements* (1982), proposes that societies oscillate "between periods of intense preoccupation with public issues and of almost total concentration on individual improvement and private welfare goals" (1982: 3). He defines public action as the action in the public interest, striving for public happiness. In the past this was the only legitimate type of behavior. The alternative to public action was the withdrawal for purposes of reflection, was the *vita contemplativa.* With capitalism and liberalism pursuing the private interest became also legitimate, giving rise to generation cycles of preoccupation with the public and the private.

Cyclical theories are supposed to have an endogenous mechanism for the cycle. In the case of state intervention, the endogenous mechanism is accumulation of distortions deriving from state intervention and from market regulation. In Hirschman's political cycle, the endogenous mechanism is disappointment: pursuing the private interest, increasing individual consumption, as well as acts of participation in public affairs, which are undertaken because they are expected to yield satisfaction, also yield disappointment. Given this fact, Hirschman says that it is a mistake to think in terms of fixed goals. "Men think they want one thing, and then, upon getting it, find out to their dismay that they don't want it nearly as much as they thought" (1982: 21). Specifically, Hirschman criticizes Mancur Olson's neoliberal critique of collective action (1965). Collective action is only unlikely when individuals are disappointed with public action. History proved endlessly - and it was confirming in the 1960s, when Olson first presented his theory - that collective action may be very strong. After the disappointment faced by the generation of the 1960s, the turn to private action in the 1970s and 1980s could be predicted in terms of a cyclical theory, never in terms of Olson's absolute an a-historical proposal.

Arthur Schlesinger, Jr., following the tradition of his father, that developed a cyclical analysis of American history according to a conservatism *versus* liberalism approach,[7] and adopting Hirschman's theory, proposes that the political cycles are defined by a "continuing shift in national involvement between public purpose and private interest" (1986: 27). He observes that "it is the generational experience that serves as the mainspring of the political cycle... each new generation, when it attains power, tends to repudiate the work of the generation is has displaced" (1986: 29-30). On the other hand, he does not see correlation between the political cycle and the business cycle: the depression of the 1930s ushered the New Deal; in contrast, the Progressive Era, 1901-1919, began in a time of general prosperity. I would add that the recent conservative wave began with the economic crisis of the 1970s; it will probably end in the early 1990s.

Actually our proposal of a cycle of state intervention is the middle between Kondratieff's economic long waves a Hirschman's political cycles. The cycles of state intervention are both an economic and a political phenomenon. They share characteristics of both types of cycles. The changes from market coordination to state intervention and vice-versa are means to confront an economic crisis. If the failures of market coordination are

[7] - See Arthur Schlesinger, Sr. (1949).

behind the crisis, increased state intervention is necessary; if the economic crisis may be related to excess state intervention, reduction of the state apparatus will be unavoidable. On the other hand, the political cycle may also be related to the basic nature of the economic crisis. If it tied to the failures of the market, a progressive phase may prevail, as was the New Deal. In contrast, if the crisis may be attributed to excess or distorted state intervention, a conservative criticism and a conservative wave may occur, as it was the case in the last twenty years. We should, however, abstain to establish an economicist relation of economic crisis to the political cycle. The collective disappointment stressed by Hirschman may have strictly political origins, as, for instance, the excesses of authoritarian rule or the disorder of revolutions.

5. Types and Intensity of State Intervention

State intervention assumes many forms. It is possible to distinguish four of them: (1) macroeconomic regulation, (2) normative microeconomic regulation, (3) administrative microeconomic regulation (including all kinds of subsidies, and (4) nationalizations or direct production. Its intensity will vary according to the moment and the situation.

It is possible to define the theoretical limit for each type of intervention. The limit of macro regulation is centralized planning; normative micro regulation may limit itself to some health and safety regulations for the production and distribution of given goods or to extend itself to practically all types of economic activities. Administrative micro regulation - specific, case by case regulation whose application depends on a given public official or of a government committee - may also be very extensive at the expense of the normative micro regulation, or very limited. Finally, the limit of nationalizations is the abolition of private ownership of the means of production.

State intervention will also vary according to the type of relation that the state establishes with business. It can be restraining, supportive, or neutral. Taxation and the regulation of health, safety and the environment are typically restraining. Subsidies and tax exemptions are the classical examples of supportive state intervention. Macroeconomic policy can eventually be neutral, although we know very well that distributive neutrality in state intervention is almost impossible.

The intensity of state intervention is very difficult to measure. The simplest way is to measure the share of state expenditures in the GDP, but this does not take the state owned enterprises into account. An entirely different and very relevant form of measuring state intervention is by the degree of regulation, but there is no established quantitative technique for measuring the intensity of state regulation. In this paper, I use a loose combination of both criteria.

6. A Cyclical and Changing Pattern

The reason why state intervention shows a cyclical pattern is more or less obvious once the idea is established. The market is clearly unable to guarantee capitalist accumulation by itself, nor does it possess an endogenous mechanism to promote a socially acceptable distribution of income. Given these two assumptions, state intervention is necessary for both accumulation and distribution. Thus, state intervention will take place in spite of the permanent criticism from the right (as well as the left). As it tends to increase in intensity during the expansion phase of the cycle, it will necessarily provoke distortions that can only be corrected in the declining phase.

During the expansion phase of the cycle - that should not be confused with the normal business cycle, but may coincide with the long economic cycles - the intensity of all forms of state intervention will tend to increase. Starting from a low level of state and from a high level of market coordination of economic activity, state intervention will try to correct the distortions caused by the market.

In the initial stage of the cycle regulatory policies will be successful in coordinating the economy, (1) stimulating national production through an increase of state expenditures and modernization of given industries through several types of subsidies and tax exemptions, (2) distributing income through taxation and welfare expenditures, (3) limiting abuses through many forms of regulation. On the other hand, the state will make direct investments by creating state-owned enterprises, particularly if the country is in the initial stage of industrialization.

However, after a while, state intervention will begin to give rise to its own distortions. The increase of state expenditures resulting from increasing pressure from businessmen and consumers will tend to cause serious imbalances in the public budget. As excess regulation implies cost increases, it will increasingly pose obstacles to the international competitiveness of the business enterprises. Criticism of these distortions will mount as the rate of inflation increases or as balance of payment problems appear. State-owned enterprises, that had a major role in promoting forced savings, will show inefficient management and poor economic results. Then it is time for fiscal adjustment, de-regulation and denationalization.

The logic behind the cycles of state intervention is quite simple. It is similar to the logic of all cyclical processes. The expansion phase may be considered as a sound growth process, and also as an intumescence or inflammatory process. Everything increases - investments, profits, wages, consumption, state expenditures, regulations - but this growth is not necessarily balanced. If it were, if growth followed always the equilibrium path, we would not have cycles; just a golden path of growth. As a rule growth is an unbalanced process. The successful experiences of the expansion phase tend to be overdone. If the increase of state expenditures and of state regulation is successful, economic agents do not know when to stop. They will increase state intervention until it becomes disfunctional, with the negative consequences of intervention overcoming the positive ones. This lack of functionality of state intervention will become particularly obvious if the increase of state expenditures ends in a fiscal crisis. After a period of continuous failures under increasing criticism, it will be time to reduce state intervention, opening space for more market control of the economy.

However this is not the end of the story. After a while, the process of de-regulation and denationalization will come to an end and a new process of state intervention will begin. It will be different from the previous expansion, as the state will assume new roles demanded by capitalists and, increasingly, by the technobureaucratic salaried middle class and by the workers. As Ignácio Rangel, whose dialectical vision of the intervention process is quite clear, says:

> At a given moment in the cycle the debate between privatists and statists, that never ceases completely, tends to assume acute forms, preparing a new distribution of the activities that form the economic system... Always, after the battle, the privatists seem to be the winners because the state had to renounce to certain activities. However, in a second moment - more a question of concept than of chronology - the social and economic system will force the state to assume new responsibilities (1984: 153-154).

The new wave of state intervention will respond to the instabilities inherent to the market system together with the increasing demands of society for better standards of living, for more security and predictability, for continuous technological development, for an enhanced protection of the environment. This new intervention will be different from the previous one because some of the problems that had to be faced in the previous expansion of state intervention have now been solved, because new problems or new challenges have emerged, and because old mistakes should not be repeated.

7. Intervention as an Industrializing Strategy

The cyclical character of state intervention can also be viewed from the stand point of the process of economic development. State intervention will vary historically according to the stage of economic growth, but not linearly as Rostow (1960) believed. After the classical contribution of Gerschenkron (1962), it became established that the later the industrialization takes place in relation to the first industrial countries, the larger the tendency for the state to initially play a major economic role. Taking this theory to its limit, the Soviet Union may be considered not as an unsuccessful socialist experience, but rather as a case of successful (in the first phase) statist industrialization strategy (see Bahro, 1978). Germany and Japan at the end of last century and Brazil and Korea this century would be intermediate situations where an alliance between the bourgeoisie and the state technobureaucracy backed the initial industrialization process.

Nationalizations during the first phase of late industrialization are necessary because only the state has the ability to extract the required forced savings from society. However, once this phase of primitive accumulation is over, forced savings cease to be the essential element of the growth strategy. The classical problem of an efficient allocation of resources becomes fully relevant because economic development can no longer be based on an internal market protected from foreign competition. Growth now depends on increasing productivity and on the international competitiveness of national production. Both capital accumulation and innovation - the permanent introduction of technical progress - assume a decisive role in the process of economic development.

At this point, the limitations of economic planning as compared to market coordination become evident. Business enterprises coordinated by the market and moderately regulated by the state tend to and must be more flexible, more creative and more efficient. In contrast, state-owned enterprises not only do not have as much incentive to innovate, but they are also often the victims of contradictory political demands. As a result, the process of state intervention will tend to be reduced after the initial phase of late industrialization. This was exactly what happened at the beginning of this century in Germany and Japan, and is presently taking place in Brazil, Korea, Mexico, and, in a different (because it is revolutionary) way, in China and the Soviet Union. Perestroika is not only an attempt by Michael Gorbachev to reduce state intervention and increase the role of the market in coordinating the Soviet economy, but is also an attempt to change the nature of the Soviet statist social formation.

8. Conclusion

Thus, for the late comers in the process of industrialization, the long term tendency should be to reduce state intervention. However, the experience of countries like Germany, Japan and Austria shows that there was a new wave of state intervention when these countries reached levels of growth comparable to those of the more developed countries. In this second cycle of state expansion, however, the emphasis was no longer concentrated on nationalization. Since World War II, state intervention has been directed to building up the welfare state, and to macro and micro regulation of private business enterprises.

This pattern of state intervention has been facing a crisis since the 1970s. This crisis, still in progress, will first mean a reduction of the economic role of the state, but will most likely make the state ready for a new historical phase of expansion. Given the ever-changing character of state intervention, this new phase, intervention will necessarily take on new forms, responding to new or newly-defined needs of society. In this phase, the emphasis of state intervention will most likely be the promotion of technological development and the defense of the environment. The first strategy was adopted in Japan some time ago. The European Economic Community is clearly working in this direction, and the United States will have no alternative but to follow its competitors. The state is now operating on the frontier of the national states, as a weapon to assure their international competitiveness. The protection of the environment, that in the 1970s was as banner of the green movement, in the last ten years became a dominant worry all over the world. State regulation is already playing a major role in this realm, and it will to be more accentuated in the future.

In very broad terms, it can be said that, the first stage of state intervention was oriented towards primitive accumulation, forced savings that allowed beginning the industrialization; the second towards installing the welfare state: the third will probably support scientific development and technological progress and environmental protection. These phases or stages may be correlated with the successive expansion phases of the long cycles.

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