



Prime Minister's Meeting for Discussion of the State Ownership Document



Role of the State and Conscience of the Nation

Prof/ Ashraf El-Araby
President of the National Planning Institute
Former Minister of Planning
Follow-up and Administrative Reform

In all historical experiences, the state played a prominent role in economic life in particular and in the total development process in general. That role was not in the void. Rather, it was an integral part of the development philosophy and economic school, to which the decision makers belonged in the different countries and historical eras. At the theoretical level, we can distinguish between three basic schools of thought when determining the role of the state in the economic life: the Neoclassical School, the Self-Dependence or Independent Development School and the Organizational or State Development School. The first school is based on the idea of "invisible hands" introduced by Adam Smith, which depends on the free market mechanisms in achieving immediate balance in all markets, the balance that maximizes the profits of producers and the benefits of consumers, hence the welfare of the whole society in general. The supporters of the Neoclassical School or its contemporary formula known as the "Washington Consensus" policies believe that the state should limit its role in the economic activity and should focus on improving the market efficiency in achieving the society's goals through the different incentive systems.

In contrast to the first school, supporters of the Independent Development School based on the pillars of the leftist thought and the self-dependence principles believe that the market alone does not achieve development and that even when the market powers are allowed to work side-by-side with planning and government interference, development is not achieved through the free markets mechanisms. It is rather achieved

through orientation of the market and controlling its tracks by the state, in the light of specific plans for developing certain industries having relative advantages. This can be attained through using significant packages of investment, commercial and industrial policies particularly customs protection, support for emerging industries and exports and the policies for building national scientific and technological capabilities. However, the

third school known as the Organizational or State Development School intersects with the other two schools in many of their principles, occupying an intermediate position. It is based on more realistic hypotheses and it avoids, falling in the trap of adopting situations based on ideological prejudices to a far extent. It also uses a pragmatic selective approach combining the other two models, such as motivating organizational tools, which form together a consistent formula of the state interference.

In the context of developing countries, the state interference in the opinion of the supporters of this school should be a smart one and should not be limited to eliminating the market deformities/failure or ensuring a competitive environment (static efficiency), but should rather include enhancing creativity and change (dynamic efficiency) through its educational, scientific and industrial policies. If the state does not interfere to launch the process of coping up with others, achieving organizational change and changing the inherent relative advantages, those developing countries will be exposed to the risks of stagnation (static equilibrium solution) at a very low level of development and variation.

In his book Asian Drama published in 1968, Myrdal distinguished between two types of state, the soft state and the hard state. While the first state does not interfere much in the economic life of the arc of South Asian countries, the second plays a major role in implementing the economic goals of the arc of East Asian countries. In addition, analysts usually distinguish between the

The supporters of the Independent Development School based on the pillars of the leftist thought and the self-dependence principles believe that the market alone does not achieve development and that even when the market powers are allowed to work side-by-side with planning and government interference, development is not achieved through the free markets mechanisms. It is rather achieved through orientation of the market and controlling its tracks by the state.

The Egyptian President's call for national dialogue and assigning the government to organize the economic conference held recently, during which the state ownership document was discussed, are good signs of optimism regarding a more efficient role of the state in the future.



In fact, reviewing the experiences of East Asian countries that have adopted the state development model provides a number of useful lessons in this regard. Effective interference of the state in economic life, as is the case in many developing countries, does not necessarily mean the spread of profit and income generating activities.

normative role and the positive role of the state.

While the first defines the role that the state must play to maximize welfare in the society, the second determines what the state actually does. There is often a great discrepancy between the two roles, and this highlights the importance of reform policies that can bring them closer to each other. Previous experiences indicate that countries that desperately need the strong role of the state and the public sector may be the ones, in which this sector is unable to play this role with the required efficiency. The inevitable result is that expanding the role of the state and increasing its influence in the economic life in those countries lead to harming the economic activity, minimizing social welfare and adding the state failure to the market failure. The reality confirms that reforming the current role of the state to bring it closer to the normative role, which it is supposed to play, is not an easy task. The role of the state in a given period is largely determined by its role in previous periods, which constitutes a severe constraint on any efforts to reform this role and the policies associated with it. Those policies often have long-term consequences, and result in many legal, political and administrative obstacles to changing those policies.

This gives rise to the contradiction between the executives' awareness of the need to adopt specific reforms and their inability to carry out those reforms in many cases. In addition, many groups and segments in the society and even within the administrative apparatus of the state itself, who benefited from those wrong policies in the past, strongly resist any reforms against their interests, which makes matters more complicated.

In fact, reviewing the experiences of East Asian countries that have adopted the state development model provides a number of useful lessons in this regard. Effective interference of the state in economic life, as is the case in many developing countries, does not necessarily mean the spread of profit and income generating activities. Undoubtedly, the Egyptian President's call for national dialogue and assigning the government to organize the economic conference held recently, during which the state ownership document was discussed, are good signs of optimism regarding a more efficient role of the state in the future. Here, I remember the statement of French Poet Paul Valery: "If the state is strong, it crushes us. If it is weak, we perish." Therefore, the ideal role of the state may fall midway between these two extremes.